POSaBIT Systems Corporation

Management's Discussion and Analysis

Year ended December 31, 2019

(Expressed in United States dollars)

June 15, 2020

POSaBIT Systems Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Expressed in United States dollars)

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*This management discussion and analysis ("**MD&A**") has been prepared based on information available to POSaBIT Systems Corporation ("**POSaBIT**" or the "**Company**") as at June 15, 2020. This MD&A is based on information available to POSaBIT and updates disclosure previously provided in the Company's Annual MD&A, up to the date of this MD&A and should be read in conjunction with the Company's audited consolidated financial statements and the related notes as at and for the years ended December 31, 2019 and 2018 (the "**Consolidated Financial Statements**"). The Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("**IFRS**") and all amounts are expressed in United States dollars unless otherwise noted. Other information contained in this MD&A has also been prepared by management and is consistent with the data contained in the Consolidated Financial Statements. Additional information relating to the Company can be found on the Company's website at www.posabit.com.*

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures (**"DC&P"**) and/or ICFR, **nor has it completed such an evaluation**. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

This document contains "forward-looking statements", which may include, but are not limited to, statements with respect to the future financial or operating performance of POSaBIT or future events related to POSaBIT, which reflect expectations regarding growth, results of operations, performance, business prospects or opportunities or industry performance or trends. These forward-looking statements reflect POSaBIT's current internal projections, expectations or beliefs and are based on information currently available to POSaBIT. Often, but not always, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "intend", "plan", "anticipate", "believe", "predict", "potential", "continue", "budget", "schedule", "estimate", "forecast" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward- looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements expressed or implied by the forward-looking statements to differ materially from those anticipated in such statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; changes in labour costs and other costs of materials, equipment or processes to operate as anticipated; the ability to attract and retain qualified personnel; market competition; governmental regulation and approvals; and, the factors discussed in the ***Risks and uncertainties*** section of this MD&A. Although POSaBIT has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and, unless otherwise required by applicable securities laws, POSaBIT disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

General

POSaBIT Systems Corporation ("**POSaBIT**" or the "**Company**"), was incorporated as Foreshore Exploration Partners Corp. ("**Foreshore**") on June 12, 2017, pursuant to the *Business Corporations Act* (British Columbia) and was a Capital Pool Company, pursuant to the policies of the TSX Venture Exchange ("**TSXV**"). On March 29, 2019, Foreshore obtained receipt of its final prospectus filed with regulatory authorities in British Columbia, Alberta and Ontario, in connection with its proposed reverse takeover transaction (the "**Transaction**"), with POSaBIT, Inc. Pursuant to the Transaction that was completed on April 5, 2019, Foreshore by way of a plan of merger (the "**Merger**"), acquired all of the issued and outstanding shares of POSaBIT, Inc. through a merger of the Company's wholly-owned subsidiary, POSaBIT Merger Sub, Inc. with POSaBIT, Inc. as the surviving legal subsidiary of the Foreshore. Upon completion of the Merger, POSaBIT, Inc. was renamed POSaBIT US, Inc ("**POSaBIT US**") and Foreshore was renamed POSaBIT Systems Corporation. Pursuant to the Merger, existing POSaBIT US securities holders would receive 1.7539815 Company securities (common shares, options, warrants, finder/agent warrants, as applicable) for each POSaBIT US security held. The Transaction constitutes a reverse-takeover ("**RTO**") of Foreshore by the shareholders of POSaBIT US. Details of the Transaction are disclosed in note 5.1 (a) of the Consolidated Financial Statements.

In connection with the Transaction, Foreshore delisted from the TSXV and obtained listing on the Canadian Securities Exchange ("**CSE**") under the trading symbol "**PBIT**".

The Company's head office is located at 1128 8th Street, Kirkland, Washington 98033. Its registered address in Canada is 77 King Street West, Suite 400, Toronto, Ontario, M5K 0A1. The Company's operations primarily involve a point-of-sale software services designed to offer merchants a fully featured solution. The company also has a payments business for consumers to make it easy to acquire digital currency and use it to purchase goods and services.

The Consolidated Financial Statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, which contemplates the realization of assets and settlement of liabilities as they fall due in the normal course of business for the foreseeable future. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. The Company has incurred losses and has had negative cash flows from operations from the inception that have primarily been funded through financing activities. As at December 31, 2019, the Company has a reported working capital deficit of $2,131,850 (December 31, 2018 – $329,462) and has shareholders' deficiency $1,750,417 (December 31, 2018 – equity of $577,510). These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. The Company will need to raise additional capital during the next twelve months and beyond to support current operations and planned development. The Financial Statements do not reflect the adjustments to the carrying amounts of assets and liabilities and the reported expenses that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

During the reporting period, POSaBIT also maintained and operated DoubleBeam's original hospitality and food services POS offering, which serves over 200 companies in the United States. Large Fortune 500 corporate cafeterias use the Doublebeam POS for their retail checkout experience, including companies like Nike, Albertsons, Safeway, Under Armor and Ross Dress for Less. On May 28, 2020, the Company announced it had completed sale of its DoubleBeam business (see *Disposition of DoubleBeam business* section of this MD&A).

The Consolidated Financial Statements were authorized for issuance by the Board of Directors of the Company on June 15, 2020.

The Company's newly-adopted standards and its accounting policies are detailed in notes 3 and 4, respectively, of the Consolidated Financial Statements.

Principal Business and Stated Business Objectives

The POSaBIT product line is feature-rich and is the first fully integrated POS and Payment solution for cash-only industries. POSaBIT provides visibility, compliance and increased sales to merchants, as well as an enhanced buying experience for the consumer.

- POSaBIT Payments Service is the core payment engine that leverages the public blockchain and allows customers to easily purchase cryptocurrency using a Debit card and either spend in the store or upload to a customer preferred digital wallet.
- POSaBIT Point of Sale (Cannabis) is the cornerstone product that tracks all sales ("seed-to-sale tracking"), integrates full customer history and preferences, and offers the first fully integrated cash, debit and cryptocurrency (Litecoin) payment options for product.

Target projected revenue streams

POSaBIT has 2 main revenue streams that can be further granulated as shown below. The POSaBIT payments service generates revenue via setup costs, hardware costs, transaction fees and convenience fees. The POSaBIT POS (both for the food services industry and the cash-only industry) has a traditional SaaS subscription model (pay per terminal/console on a monthly, or yearly basis).

Revenue type	Description
Payment services	
Transaction Fees	POSaBIT charges a transaction fee for each debit charge to the merchant. This fee is variable based on volume projections by merchant and can range between 1.5% and 4% per transaction.
Transaction Swipe Fees	Each debit transaction includes a "per swipe" fee paid by the merchant. This fee can range between $0.25 and $0.35 per transaction.
Setup Fees	POSaBIT charges a fee per install to each merchant. This fee can range between $250 to $1,000 based on how complex the install is.
Convenience Fees	Convenience fees are charged to the consumer for each debit or credit transaction. The convenience fee can range from $2.45 to $5.00 depending up the merchant contract.
Subscription Fee	POSaBIT and Doublebeam charge merchants a monthly or yearly subscription fee per terminal/console. This fee can range from $39 to $250 per month. This fee is negotiated on a case-by-case basis with each merchant based on the volume of transactions and size of the merchant installation.

(Expressed in United States dollars)

POS services

Hardware and installation sales	POSaBIT charges the merchant for the cost of the hardware - typically this is approximately $1,850 and covers the cost for the point of sale terminal, debit terminal, scanners, receipt printers and cash drawer. DoubleBeam charges a similar fee between $1,300 and $1,800 per terminal for each POS unit based on the features selected by the merchant.

The reverse-takeover transaction

The Company closed the Transaction on April 5, 2019. The Transaction constitutes an RTO of Foreshore by the shareholders of POSaBIT US. At the time of the Transaction, the Company did not constitute a business as defined under IFRS 3; therefore, the Transaction is accounted under IFRS 2, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense to net loss.

a) Foreshore is treated as the acquiree and POSaBIT US is treated as the acquirer and therefore, the go-forward entity is deemed to be a continuation of POSaBIT US and POSaBIT US is deemed to have acquired control of the assets and business of Foreshore in the consideration of the issuance of capital, options and warrants, as applicable. For accounting purposes, POSaBIT is deemed t have issued the following securities in exchange for the assets of Foreshore and the fair value of the consideration is as follows:

	$
3,250,000 common shares valued at $0.45 per share	1,456,746
300,000 Options	112,730
43,000 Agent Options	16,126
	1,585,602

Allocated to Foreshore's net assets:

	$
Cash	77,589
Accounts payable	(185)
Net assets	77,404
Cost of listing (transaction cost – note 20)	1,508,198
	1,585,602

i) The fair value of the options was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.59%, volatility of 80.355%, share price of $0.45 and dividends of nil.

ii) The fair value of the Agent Options was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.59%, volatility of 80.355%, share price of $0.45 and dividends of nil.

iii) In addition to the cost of listing transaction fees of $1,508,198, the Company incurred legal fees of $228,719 and audit costs of $83,597, all of which are included as transaction costs on the unaudited interim consolidated statements of loss.

(Expressed in United States dollars)

b) Share capital of Foreshore and POSaBIT:

   i) Foreshore's share capital (net of issuance costs) and contributed surplus are eliminated by a charge to retained earnings.

   ii) The equity structure (the number and type of equity interests issued) reflects the equity structure of POSaBIT (the legal parent and the RTO acquiree), including the equity interests the POSaBIT issued to affect the Transaction. Accordingly, the equity structure of Foreshore (the legal subsidiary and the RTO acquirer) is restated using the exchange ratio established in the Merger to reflect the number of shares of POSaBIT issued in the RTO.

c) The assets and liabilities of Foreshore are included in the consolidated statements of financial position at their historical carrying values, which approximate their fair values. The assets and liabilities of POSaBIT are included in the consolidated statements of financial position at their historical cost basis, except for financial instruments that are measured on amortized cost or fair value.

Acquisition of DoubleBeam, Inc. (2018)

On February 16, 2018, the Company acquired 100% of the shares of DoubleBeam ("Acquisition"), an unlisted company based in the state of California that specializes in point of sale payment processing. The Company has acquired DoubleBeam to expand its operations and integrate DoubleBeam's structure with its own. The Acquisition has been accounted for using the acquisition method.

The total purchase price paid for DoubleBeam was $621,000 by way of the Company issuing common shares in the amount for 22.7% of the fair value of its common shares on February 16, 2018.

The estimated fair value of the identifiable assets and liabilities of DoubleBeam as at the date of acquisition were:

	Total
	$
Purchase Price:	
Shares exchanged	**629,000**
	629,000
Net assets acquired:	
Cash	**17,400**
Accounts receivable	**45,600**
Equipment	**18,000**
Intangible assets	**50,000**
Customer list and software	**40,000**
Accounts payable	**(62,000)**
Goodwill	**511,000**
	629,000

POSaBIT US estimated the fair value of intangible assets, customer list, and software based on a discounted cash flow model. Furthermore, the excess of the consideration paid over the fair value of the identifiable assets (liabilities) acquired were recognized as goodwill, which primarily consisted of the assembled workforce.

As at December 31, 2019, the Company completed goodwill impairment testing that resulted in an impairment in the goodwill of $200,000 (December 31, 2018 – $nil). Given that revenues associated with the processing services have not been growing at the expected pace, the carrying value of the assets which support the business is not likely to be recoverable from future related cash flows. As a result, management has recognized the impairment charges described above.

Disposition of DoubleBeam business (May 2020)

On May 28, 2020, the Company announced it had completed sale of its DoubleBeam business. The disposition was made by way of the sale of certain assets and the assumption of certain liabilities by the purchaser. The Company received $270,000 in consideration, with $125,000 received on closing. A further $25,000 and $120,000 are due 90 days and 180 days, respectively, after closing.

The assets consist of all of the Seller's rights, title and interests in and to certain contracts, rights to software and source codes, certain equipment and existing customer and merchant relationships relating to the business, and certain of the assets, properties and rights of the seller with respect to the business whether tangible or intangible, recorded or unrecorded.

Overall performance

As at December 31, 2019, the Company had assets totaling $2,022,201 and shareholders' deficiency of $1,750,417. This compares with assets of $4,025,660 and shareholders' equity of $577,510, as at December 31, 2018.

During the year ended December 31, 2019, the Company's net assets decreased by $2,327,927, the result of a decrease in assets of $2,003,459 together with an increase in liabilities of $324,468. The increase in assets was attributable to an increase in due from related parties of $102,619, prepaid expenses of $169,306, equipment of $72,326, right-of-use assets of $22,042 and miscellaneous increases to other assets totalling $8,066. These increases were offset with decreases to cash and cash equivalents of $1,029,463 (the result of cash used for operating activities of $3,298,590 plus cash used for investing activities of $29,344, offset by cash provided from financing activities of $1,531,225 and increase to restricted cash of $767,246), receivables of $171,525, customer lists of $26,667 (due to amortization), intangible assets of $193,241 (due to amortization) and goodwill, the result of a $200,000 impairment.

Net assets were further decreased with increases in the following liabilities: Notes payable of $200,000, accounts payable and accrued liabilities of $65,167, due to related parties of $35,000 and right-of-use lease liabilities of $24,301.

As stated, POSaBIT had significant increases in revenue over the year versus 2018. It is important to understand that the majority of POSaBIT's revenue is generated based on the amount of transactional sales volume. In 2019, POSaBIT grew each quarter so you would anticipate an increase in costs as the revenue increased. However, this increase in revenue to costs will not be proportional as POSaBIT is processing more but the overall fees charged by the processors has gone down (e.g. processors provide better rates for higher volumes).

Operations

As at December 31, 2019, the Company had 18 full-time employees and no full-time contractors. The Company continued to expand the number of stores into 10 states – Washington, California, Colorado, Oregon, Alaska, Montana, Arizona, Nevada, Oklahoma and Maine. Product development efforts focused on incremental feature enhancements to the payment service as well certifying the POSaBIT point-of-sale in each of the new states as required by each state government and how it regulates the cannabis industry.

(Expressed in United States dollars)

Selected annual financial information

	December 31, 2019	December 31, 2018
	$	$
Consolidated statements of loss		
Revenue	**4,175,223**	2,443,043
Gross margin	**598,044**	193,290
Total operating expenses	**(5,839,117)**	(3,423,900)
Other expenses	**(270,017)**	(664,142)
Loss	**(5,511,090)**	(3,894,752)
Basic and diluted loss per common share	**(0.07)**	(0.10)
Consolidated statements of cash flow		
Cash used for operations	**(3,298,590)**	(312,126)
Cash used for investing activities	**(29,344)**	(337,203)
Cash provided from financing activities	**1,531,225**	2,642,603
Change in restricted cash	**767,246**	(767,246)
(Decrease)/increase in cash	**(1,029,463)**	1,226,028
Consolidated statements of financial position		
Cash	**404,444**	1,433,907
Total assets	**2,022,201**	4,025,660
Total liabilities	**(3,772,618)**	(3,448,150)
Shareholders' equity (deficiency)	**(1,750,417)**	577,510
Average number of common shares outstanding	**78,732,074**	40,364,396

Summary of quarterly results

	4th Quarter 2019	**3rd Quarter 2019**	**2nd Quarter 2019**	**1st Quarter 2019**
Revenues	907,236	1,149,573	1,053,410	1,065,004
Gross margin	34,399	159,830	278,432	125,383
Loss	(1,467,281)	(813,049)	(2,456,393)	(774,367)
Net loss per share – basic and fully-diluted[1]	(0.02)	(0.01)	(0.03)	(0.03)
Total assets	2,022,201	2,625,013	2,976,362	3,573,385
Long-term debt	(400,000)	(400,000)	(400,000)	(200,000)
Deficiency	(1,750,417)	(1,175,248)	(995,617)	(160,673)
Cash dividends declared per common share	-	-	-	-

	4th Quarter 2018	3rd Quarter 2018	2nd Quarter 2018	1st Quarter 2018
Total revenues (returns)	1,056,596	740,732	386,796	258,919
Gross margin (loss)	180,133	24,711	(12,860)	1,306
Loss	(1,262,128)	(774,486)	(953,179)	(904,959)
Net loss per share – basic and fully-diluted[1]	(0.03)	(0.03)	(0.04)	(0.05)
Total assets	4,025,660	3,353,711	1,901,158	1,611,446
Long-term debt	(200,000)	(200,000)	-	(5,325,740)
Equity (deficiency)	577,510	1,451,594	869,659	(4,595,396)
Cash dividends declared per common share	-	-	-	-

[1]Inclusion of outstanding warrants and options is anti-dilutive.

Results of operations

Year ended December 31, 2019 and December 31, 2018

POSaBIT incurred significant losses, including mostly non-cash transaction fees resulting from the completion of the Transaction. Loss for the year was $5,511,090 (2018 - $3,894,752) or $0.08 per share (2018 - $0.17). The significant changes are highlighted below:

Revenues of $4,175,223 *(2018 - $2,443,043)*

The increase of approximately $1,732,000 over 2018 is due to the increase in volume of processing transactions resulting in greater payment services revenues of approximately $1,807,000. This increase was reduced with less hardware installations resulting in lower POS services revenues of approximately $75,000.

Cost of sales $of 3,577,180 *(2018 - $2,249,753)*

Processing Fees of $2,005,567 (2018 - $958,363)

The increase of approximately $1,047,000 over 2018 is attributable to the increased volume of processing transactions.

Software License Fees of $474,852 (2018 - $215,289)

The increase of approximately $260,000 over 2018 is the result of the Company's expansion into additional markets during 2019, which required both the development and licensing of specialized geographic software.

Hardware cost of sales of $432,400 (2018 - $588,880)

The increase of approximately $156,000 over 2018 is due to a less expensive Android device used in the payment business versus a traditional iPad.

Sales labor and commissions of $642,188 (2018 - $432,277)

The increase of approximately $210,000 over 2018 is the result of the Company's expansion into additional markets during 2019.

Operating expenses of $5,839,117 *(2018 - $3,423,900)*

Administrative of $2,489,489 (2018 - $1,464,668)

General of $394,665 (2018 - $340,278)

The increase of approximately $54,000 over 2018 is attributable to the following: increases to office supplies and maintenance of $51,000, insurance of $19,000, dues and subscriptions of $5,000, various state and municipal licenses and taxes of $31,000 offset with reductions to bank charges and fees of $52,000,

Rent of $2,125 (2018 - $56,512)

The decrease of approximately $54,000 from 2018 is entirely attributable to the Company's adoption of IFRS 16 *Leases*, wherein previously expensed rental charges have now been recategorized as imputed interest charges on right of use assets.

Salaries of $1,862,056 (2018 - $897,495)

The increase of approximately $965,000 over 2018 is the result of the Company's expansion into additional markets during 2019

Travel of $177,858 (2018 - $126,995)

The increase of approximately $51,000 over 2018 is a result of the Company's expansion into additional markets during 2019.

Amortization and depreciation of $317,529 (2018 - $269,005)

The increase of approximately $49,000 is attributable to the purchases of equipment and intangible assets during 2019.

Impairment of receivables of ($10,324) (2018 – $110,785)

The decrease of approximately $63,000 from 2018 is the result of fewer DoubleBeam impairments during 2019. During 2018, the Company assessed a number of accounts receivable impairments on customers acquired through the DoubleBeam purchase. The change of approximately $58,000 over 2018 is the result of a reduction to the provision for bad debts resulting from the decrease in accounts receivable balances since the beginning of 2018

Investor relations and public reporting of $29,791 (2018 - $nil)

The increase of approximately $30,000 over 2018 is the result of the Company completing the Transaction.

Marketing of $350,120 (2018 - $177,758)

The increase of approximately $172,000 over 2018 resulted from the increases events and trade shows of $14,000, adverting and marketing of $109,000 and professional marketing services of $49,000.

Professional fees of $440,421 (2018 - $1,069,303)

The decrease of approximately $629,000 from 2018 resulted from decreases in audit fees of $175,000, contracted management services of $167,000 and corporate legal fees of $478,000. The decreases were offset with increases to accounting fees of $106,000, agent commissions of $82,000 and income tax return preparation of $3,000.

Research and development of $337,345 (2018 - $nil)

Research and development costs are comprised of 3rd-party software purchases and software development charges that do not meet the requirements of IAS 38 for capitalization.

Share-based compensation of $161,046 (2018 - $332,629)

The decrease of approximately $172,000 from 2018 is the result the issuance of fewer options during 2019. During 2018, in anticipation of completing the Transaction, the Company valued all its previously-issued options and warrants.

Transaction costs of $1,726,659 (2018 - $nil)

Listing expense of $1,508,198

See the *Reverse takeover transaction* section of this MD&A.

Transaction costs of Foreshore of $218,461

Foreshore incurred $83,597 of audit costs and $134,864 of legal fees to complete the Transaction.

Other Expenses of $270,017 *(2018 - $664,142)*

Change in fair value of digital assets of $1,158 (2018 - $(49,138))

The change of approximately $50,000 over 2018 is mainly the result of the decrease in the balance of digital assets since the beginning of 2018, being $68,500. The remainder of the change is attributable to the mark-to-market revaluation of the digital assets on hand and the end of each of 2019 and 2018.

Change in fair value of derivative liabilities of $nil (2018 - $237,876)

The decrease of approximately $238,000 from 2018 is the result of the conversion of all the Company's derivative securities upon completion of the Merger and the Transaction.

Finance Costs of $61,485 (2018 - $852,880)

The decrease of approximately $785,000 from 2018 is the result of the conversion of all of the Company's derivative securities upon completion of the Merger and the Transaction and the interest accretion thereon, not incurred in 2019.

Impairment of goodwill of $200,000 (2018 - $nil)

The increase of approximately $200,000 over 2018 is the result of revenues associated with the processing services provided by DoubleBeam not growing at the expected pace affecting the carrying value of the assets which support the business. The Company determined that the carrying value was not likely to be recoverable from future related cash flows.

(Expressed in United States dollars)

Financial risk management

Financial instruments measured at fair value are classified into one of levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities; and
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

At December 31, 2019, the Company's financial instruments consist of cash and cash equivalents, receivables, due from related parties, accounts payable and accrued liabilities, and note payable and for the comparative year, derivative liability. The fair values of cash and cash equivalents, accounts receivable, due from related parties, accounts payable and accrued liabilities, and lease liabilities approximate their carrying values due to the relatively short-term to maturity nature. The Company classifies its notes payable as FVTPL. The inputs used to fair value the notes payable are as follows:

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**31-Dec-19**
	$	$	$	$
Financial Liabilities				
Note payable	-	400,000	-	400,000
	-	**400,000**	**-**	**400,000**

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**31-Dec-18**
	$	$	$	$
Financial Liabilities				
Note payable	-	200,000	-	200,000
	-	**200,000**	**-**	**200,000**

Financial risk factors

The Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company's overall risk management program and business practices seek to minimize any potential adverse effects on the Company's financial performance. Risk management is carried out by the senior management team.

a) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to receivables and monies due from its processors.

The Company believes that its receivables balance is fully collectable. As of December 31, 2019, $419,759 (December 31, 2018 – $622,044) in receivables remains outstanding. The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate at each aging category of receivables:

(Expressed in United States dollars)

December 31, 2019	**1-30**	**31-60**	**61-90**	**>90**	**Total**
	$	$	$	$	$
Accounts receivable outstanding	397,900	7,956	15,795	46,277	467,928
Expected loss rate (%)	1.0%	3.0%	3.5%	5.0%	
Loss allowance provision	3,979	239	553	2,314	7,085
Accounts receivable, net	393,921	7,717	15,242	43,963	460,843

December 31, 2018	**1-30**	**31-60**	**61-90**	**>90**	**Total**
	$	$	$	$	$
Accounts receivable outstanding	514,700	62,981	3,766	85,778	667,225
Expected loss rate	7.0%	6.0%	6.0%	6.0%	
Loss allowance provision	36,029	3,779	226	5,147	45,181
Accounts receivable, net	478,671	59,202	3,540	80,631	622,044

The Company maintains bank deposits with reputable financial institutions.

Concentrations of credit risk that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Company derived approximately 14% (2018 - 13%) of its revenue from its largest customer. Sales to this customer may fluctuate significantly from time to time depending on the timing and level of services provided. Significant transactions from such a customer may expose the Company to a concentration of credit risk and difficulties in collecting amounts due, which could harm the Company's financial results. At December 31, 2019, the two highest customers accounted for 87% (2018 – 62%) of total accounts receivable.

b) Liquidity risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash or its equivalents in a cost-effective manner to fund its obligations as they come due. The Company's liquidity risk is subject to a Note which has interest and repayment terms.

c) Interest rate risk

The Company is subject to interest rate risk on future cash flows as the note payable bears a fixed rate of interest. The related party loans are interest free.

d) Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to provide returns to the shareholders and to maintain an optimal capital structure to minimize the cost of capital. The Company considers shareholders' equity as capital.

To maintain or adjust the capital structure, the Company may issue new shares to the shareholders, draw upon existing credit facilities or sell assets. There are no changes in the Company's capital management policies for the years ended December 31, 2019 and 2018. There are no external capital management requirements or covenants as at December 31, 2019 and December 31, 2018.

Corporate and financings

Common shares - 2019

(i) In November 2019, the Company completed a private placement (the "**November Financing**") with the issuance of 11,178,000 units (a "**November Unit**"), raising gross proceeds of $849,720. Each November Unit consisted of one common share of the Company and one share purchase warrant (a "**November Warrant**"). Each November Warrant is exercisable into one common share at CAD$0.25, for a period of 2 years. The fair value of the November Warrants was estimated at $246,380 using the Black-Scholes option pricing model with the following assumptions: estimated life of 2 years, risk-free interest rate of 1.55%, cumulative volatility of 106.07% and dividends of $nil.

In connection with completing the November Financing, the Company incurred $26,119 in cash. The share issuance costs were split between common shares ($15,724) and warrant reserve ($10,395) in proportion of as the fair value of the shares and warrants.

(ii) In September 2019, the Company issued 175,398 common shares for the proceeds of $5,000 on the exercise of stock options. The fair value of the options of $3,773 was transferred from contributed surplus to share capital.

(iii) In August 2019, the Company completed a private placement (the "**August Financing**") with the issuance of 6,026,597 units (a "**August Unit**"), raising gross proceeds of $711,692. Each August Unit consisted of one common share of the Company and 1 share purchase warrant (a "**August Warrant**"). Each August Warrant is exercisable into one common share for $0.30, for a period of 2 years. The fair value of the issued warrants was estimated at $163,503 using the Black-Scholes option pricing model with the following assumptions: estimated life of 2 years, share price on issuance of C$0.20, risk-free interest rate of 1.46%, cumulative volatility of 106.07% and dividends of $nil .

In connection with completing the Financing, the Company incurred $119,800 in cash. The share issuance costs were split between common shares ($60,140) and warrant reserve ($59,660) in proportion to the fair value of the shares and warrants.

(iv) In June 2019, the Company issued 300,000 common shares for the proceeds of $22,413 on the exercise of options. The fair value of the options of $112,730 was transferred from contributed surplus to share capital.

(v) In June 2019, the Company issued 52,619 common shares for the proceeds of $1,500 on the exercise of options. The fair value of the options of $2,073 was transferred from contributed surplus to share capital.

(vi) In October 2018, the Company issued a convertible note with a face amount of $50,000. The note accrues interest at 1% per year, which was to be converted to 549,804 common shares of the Company. In June 2019, the Company issued 549,804 common shares at a value of $50,000, on the conversion of a note obligation.

(vii) In April 2019, the Company issued 14,540 common shares for the proceeds of $1,086 on the exercise of finder's warrants. The fair value of the exercised warrants of $5,453 was transferred from warrants reserve to share capital.

(viii) In April 2019, the Company completed the Transaction (note 5.1) resulting in the issuance of 28,669,245 common shares as follows:

- 1,967,721 common shares issued to subscription receipt holders of the Company;
- 25,689,315 common shares issued to POSaBIT US preferred shareholders;
- 1,012,609 common shares were released from escrow

Contemporaneously, 3,250,000 common shares (note 5.1(a)) were issued to existing Foreshore shareholders, in exchange for the issued and outstanding common shares of Foreshore.

(ix) In January 2019, the Company issued 17,555 common shares for the proceeds of $1,000 on the exercise of options. The fair value of the options of $178 was transferred from contributed surplus to share capital.

Common shares - 2018

(x) In October 2018, the Company received proceeds of $361,466 for which 968,140 common shares are to be issued.

(xi) In September 2018, the Company issued 150,000 common shares with a fair value of $10,177.

(xii) On May 11, 2018, 23,803,785 preferred shares were issued with a value of $5,428,520, on the conversion of the convertible debentures and notes.

(xiii) In May and June 2018, the Company issued 1,885,530 preferred shares for the gross proceeds of $430,000 and incurred share issuance costs of $73,686.

(xiv) In February 2018, 9,376,312 common shares were issued as consideration for the DoubleBeam acquisition

(xv) In January 2018, the Company redeemed 1,164,421 shares of common shares from the CEO at $0.017 per share.

(xvi) In September 2018, gross proceeds of $907,025 were raised with the issuance of 1,967,793 subscription receipts. Costs of the issuance amounted to $10,519.

(xvii) In August 2018, $145,000 was raised for which 315,085, common shares of POSaBIT US were to be issued. In addition, 173,867 common shares are to be issued in settlement of debt in the amount of $80,469.

(xviii) In June 2018, $350,000 was raised for which 760,550 common shares are to be issued.

(xix) In March 2018, 1,012,609 common shares of POSaBIT US were held in escrow pending the completion of the going-public transaction with a fair value of $54,969

Related-party transactions and balances

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or

(Expressed in United States dollars)

corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.
The Company's transactions with related parties were, in the opinion of management, carried out on normal commercial terms and in the ordinary course of the Company's business.

Included in operating expenses are licence fees paid to PlaceFull Inc., a company in which the CEO owns significant shareholdings.

Key management compensation

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the directors, named executive officers, being the Chief Executive Officer and the Chief Financial Officer. Others include the Company's Chief Technology Officer and its Chief Revenue Officer. Related-party compensation paid or payable to key management is detailed below:

	Year ended December 31	
	2019	2018
	$	$
Executive Compensation to key managers	**460,487**	425,790
Licence Fees to PlaceFull Inc.	**120,000**	120,000
Rent to PlaceFull Inc.	**13,738**	7,577
Interest on loans	**3,282**	-
Totals	**600,789**	553,367

At December 31, 2019, related parties owe the Company $113,368 (December 31, 2018 - $10,749). These loans are unsecured, interest free and due on demand.

At December 31, 2019, the Company owes employees with which it has entered into loan agreements (the "**Employee Loans**"), $35,000 (2018 - $nil). The Employee Loans accrue interest at 20% per annum with interest paid quarterly and are due on October 2, 2020.

During the year ended December 31, 2019 (year ended December 31, 2018), related parties subscribed for, or were otherwise issued, the following securities (including those issued by the Company for POSaBIT US shares pursuant to the Transaction):

	2019	2018 (POSaBIT US)
	#	#
Common shares	**20,064,567**	199,040
Redemption of common shares	**-**	(663,873)
Preferred shares (issued for cash)	**-**	37,500
Preferred shares (issued on conversion of debt)	**-**	3,641,303
Shares to be issued	**-**	30,972
Total	**20,064,567**	3,322,942

Risk and uncertainties

Regulatory Risks

Cryptocurrency regulation is relatively new and evolving, and POSaBIT's ability to continue to use its system is dependent on a regulatory environment supporting its use. POSaBIT's Money Transfer License ("MTL") is granted via the Washington State Department of Financial Institutions ("DFI") and POSaBIT is obligated to perform annual onsite audits with the DFI to maintain the MTL license. Likewise, POSaBIT is subject to regulatory control on the use of Litecoin processing in cannabis stores. POSaBIT business will fail if it is unable to maintain its Money Services Business ("MSB") registration or MTL license in the states that require this.

POSaBIT is dependent on the use of Litecoin processing for its primary business model and faces many general risks related to Litecoin processing.

POSaBIT was established to process cryptocurrency payment transactions on the POSaBIT merchant platform, and has recently expanded to include full POS functionality. General risks to POSaBIT associated with the use of cryptocurrency processing are:

- Regulation (State or Federal) that limits the ability to continue acceptance of cryptocurrency payments income or all of the applications in which it is accepted and used by the Company
- Rapidly changing exchange rates and price volatility that could result in loss on Bitcoin/Litecoin to dollar exchange transactions
- Fraud that impacts the Company's receipts at the merchant, processor or exchange level
- The emergence of available alternative payment processing systems that reduce or eliminate the Company's revenues associated with its cryptocurrency payment processing system

In the event the use of cryptocurrency processing is curtailed or restricted, or if alternative processing systems make use of Litecoin less profitable, POSaBIT will not achieve its projected growth and its earning and prospects will be diminished. We will face similar risks with any cryptocurrency we feature in connection with POSaBIT's system.

Market risk

The POS equipment and services business is highly competitive, with a substantial number of large and well-entrenched competitors. We have current and potential competitors in merchant processing, almost all of which have considerably greater financial and other resources than we do. We expect new entrants to obtain licensing and directly compete with us in merchant processing based on cryptocurrency transactions. In addition, changes in the regulatory and technological environment are bringing about a global consolidation of financial services, a proliferation of competitors, and convergence among various forms of media. As a result, our profitability could face increased pressure from competition and developments of existing providers, consolidation of our customers, increased competition from new entrants and deployment of new technologies. If we are unable to respond effectively to any increased competitive pressure arising from the above factors, our revenues and results of operation could be adversely affected. Further, if our services are successful, others will enter the market, which may draw our customers away from us or preclude us from obtaining any additional customers.

Other risk factors

Novel Coronavirus ("COVID-19")

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

Key personnel

The success of the Company for the foreseeable future will depend largely upon the ability of its management team and other key personnel, including but not limited to Ryan Hamlin, President and Chief Executive Officer. The loss of any one of these individuals could have a material adverse effect on the Company's business, and the Company would need to devote substantial resources to finding replacements. The Company currently does not carry "key-man" life insurance policies covering any of these officers. Competition for qualified and experienced personnel in the technology field is generally intense, and the Company will rely heavily on its ability to attract and retain qualified personnel in order to successfully implement its business objectives. The failure to attract or retain key executives and personnel could impact the Company's operations.

Dependencies

POSaBIT may have our processing limits reduced or have our credit card and debit card processing completely shut off because it provides services in the controversial areas of both cryptocurrency sales and legal cannabis sales and certain credit and debit card companies and processors may elect (for no reason) to terminate services in either of these areas, and any such termination would have a materially negative impact on POSaBIT's business.

POSaBIT has established positive relationships with its local bank, as well as its processor and sponsor banks, that allow it to accept credit and debit cards as a form of payment for cryptocurrency. The most difficult and complex relationship is with the sponsor and acquiring banks because POSaBIT will be operating a business that is considered high risk by the debit and credit card companies. Though POSaBIT will look to build and maintain strong relationships with multiple providers in an effort to maintain its operations, there is no guarantee that it will be able to do so. Termination or limitations of services allowing our processing would have a materially negative impact on POSaBIT's business.

Outstanding securities

As at the date of this MD&A, POSaBIT has the following securities issuable or outstanding:

Security	Number outstanding
Common shares	97,252,826
Options (exercisable – 8,742,219)	9,997,969
Warrants	17,720,887
Agent options	19,753

Escrowed securities

Subject to the policies of the CSE, the following table summarizes the remaining common shares of the Company that are subject to escrow provisions together with the date of general release.

Total	October 5, 2020	April 5, 2021	October 5, 2021	April 5, 2022
12,260,420	3,065,105	3,065,105	3,065,105	3,065,105