POSaBIT Systems Corporation

Management's Discussion and Analysis

Year ended December 31, 2020

(Expressed in United States dollars)

May 5, 2021

*This management discussion and analysis ("**MD&A**") has been prepared based on information available to POSaBIT Systems Corporation ("**POSaBIT**" or the "**Company**") as at May 5, 2021. 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, 2020 and 2019 (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 received 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 (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**".

Any reference to "**note**" or "**notes**" in this MD&A refer to the Notes to the Consolidated Financial Statements.

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, 2020, the Company has a reported working capital deficit of $2,236,337 (2019 – $2,131,849) and has shareholders' deficiency $3,056,938 (2019 – $1,750,417). 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 may need to raise additional capital during the next twelve months (see note 31.2 and the ***Corporate and financings*** section of this MD&A, on the equity-raise completed subsequent to year end) and possibly beyond to support current operations and planned development and expansion activities. The Consolidated 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.

In May 2020, the Company completed the disposition of DoubleBeam, Inc. ("**DoubleBeam**") by way of an asset sale agreement (the "**Sale**"). The Sale closed on May 22, 2020 (the "**Closing**"), with the conveyance of certain assets (both tangible and intangible) by the Company and the assumption of certain liabilities by the purchaser (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 May 5, 2021.

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 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 3% 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 on up the merchant contract.
Subscription Fee	POSaBIT charges merchants a monthly or yearly subscription fee per terminal/console. This fee can range from $99 to $199 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.

Disposition of DoubleBeam business

In May 2020, the Company completed the disposition of DoubleBeam ("**DoubleBeam Sale**"). The purchase price was $270,000, $150,000 having been received as at the reporting date and the remaining (amended) amount of $65,000 received in March 2021. The final payment (the "**Final Payment**") was subject to certain conditions that were not met by the Company and subsequent to the reporting date, the Company reached an agreement with the purchaser to a reduction to the Final Payment of $55,000 (the "**Reduction**"), to meet the Conditions. The Reduction has been reflected in the receivable due from the purchaser at the reporting date, with the offset reflected in the gain on sale.

The disposition of DoubleBeam led to the classification of the DoubleBeam assets and liabilities as held for sale in March 2020. With the closing of the sale, the Company completed an impairment analysis regarding the goodwill associated with the DoubleBeam purchase, which resulting in an impairment loss of $57,458 in profit or loss. Upon the closing, the held-for-sale assets and liabilities were eliminated with gain on sales of discontinued operations recorded to profit or loss.

	May 22, 2020*
	$
Equipment, net (loss on sale of $2,060)	348
Intangible assets, net (loss on sale of $242)	7,777
Customer list, net	8,334
Goodwill, net	253,542
Assets sold	270,000
Proceeds of sale (net of the Reduction)	215,000
Loss on sale of DoubleBeam assets	**55,000**

*The Closing

The following is a summary of the financial performance and cash flow information of discontinued operations:

	Year ended	
	December 31, 2020*	December 31, 2019
	$	$
Revenue		
Digital processing services	**164,133**	735,123
Processing fees	**24,806**	70,562
Software license fees	**19,926**	86,791
Hardware cost of sales	**64,696**	241,244

(Expressed in United States dollars)

	Year ended	
	December 31, 2020*	December 31, 2019
	$	$
Sales labour and commissions	**20,000**	35,114
Cost of sales	**129,428**	433,711
Gross Margin	**34,705**	301,412
Administrative *(note 23)*	**54,447**	229,585
Amortization and depreciation	**10,220**	16,111
Marketing expense	**48**	23
Professional fees	**-**	28,548
Operating costs	**64,715**	274,267
Change in expected credit losses	**(16,213)**	(11,556)
Loss on disposal of assets	**-**	(949)
Impairment of goodwill and customer lists	**(57,458)**	(226,667)
Other expenses	**(73,671)**	(239,172)
Loss from discontinued operations	**(103,681)**	(212,027)
Loss per share from discontinued operations	**(0.00)**	(0.00)
Cash provided from (used for) discontinued operations	**(42,663)**	13,315
Cash used for discontinued investing activities	**-**	(16,672)

*The Closing.

Government grant and loan

Due the global outbreak of Novel Coronavirus ("**COVID-19**"), the federal US Government amended its small business administration ("**SBA**") loans to provide relief from the financial effects of COVID-19. SBA provided the Company with a reduced-interest loan ("**SBA Loan**") of $150,000 and a non-repayable grant (the "**Grant**") of $10,000. The SBA Loan has an interest rate of 3.75%, is amortized over 30 years and allows for no repayment during the first year. Commencing in year 2, the Company is required to make monthly payments of $731, which will be applied first to outstanding interest and then to principal. Any outstanding principal and interest is due on May 18, 2050.

Pursuant to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the benefit of a government loan at below-market rate is treated as a government grant and measured in accordance with IFRS 9 *Financial Instruments*: the benefit of below-market rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. The Company has estimated the initial carrying value of the SBA Loan at $40,535, using a discount rate of 18%, which was the estimated rate for a similar loan without the reduced-interest component. The difference of $109,465 (the "**Grant Component**") will be accreted to the loan liability over the 30-year term of the SBA Loan and offset to other income on the statements of loss and comprehensive loss.

(Expressed in United States dollars)

Both the Grant and the Grant Component of $119,465 (2019 - $nil) have been recorded as other income on the statements of loss and comprehensive loss.

Financial position

As at December 31, 2020, the Company had assets totaling $3,685,719 and shareholders' deficiency of $3,056,719. This compares with assets of $2,022,021 and shareholders' deficiency of $1,750,417, as at December 31, 2019.

During the year ended December 31, 2020, the Company's net assets decreased by $1,306,566, the result of an increase in assets of $1,663,518 offset by an increase in liabilities of $2,970,084

The significant changes in the Company's net assets are detailed as follows (analysis is net of changes resulting from amounts previously allocated to assets held for sale):

Item	Change	Explanation of change
	$	
Cash	573,210	Cash used for operations of $130,027 plus cash provided from financing activities of $879,010, less cash used for investing activities of $175,773.
Receivables and sales taxes recoverable	1,433,055	Receivables increased with normal transaction volume increases.
Prepaid expenses and digital assets	(87,641)	The reduction is the result only 1 processor's prepayments at December 31, 2020 versus 2 at December 31, 2019.
Due from sale of discontinued operations	65,000	Amounts due from DoubleBeam sale as at December 31, 2020.
Due to/from related parties	118,258	Details disclosed in note 21 of the Consolidated Financial Statements or in the *Transactions with related parties* section of this MD&A.
Inventories and digital assets	35,802	Finished inventory increased as the Company utilized stockpiled inventory to meet current requirements for hardware.
Right-of-use (ROU) assets	3,356	The Company adopted IFRS 16 as at January 1, 2019 and has recognized its office lease as a ROU asset. The change reflects the annual lease payments of approximately $80,000 plus the non-cash interest accretion on the lease liability of $4,000 plus the depreciation recorded on the ROU assets for the year of $73,000.
Equipment	79,626	Approximately $176,000 of purchases offset by depreciation of approximately $93,000 and sales of approximately $3,300
Intangible assets	(196,202)	Change is due to amortization for the year of approximately $184,000 plus the loss on DoubleBeam intangible assets of $12,000.
Customer lists	(13,333)	Loss on DoubleBeam customer lists.

(Expressed in United States dollars)

Item	Change	Explanation of change
	$	
Goodwill	(311,000)	Loss on disposal of DoubleBeam business (carried goodwill at time of sale) of $253,542 plus goodwill impairment for the year of $57,458.
Accounts payable and accrued liabilities	(2,038,446)	Increase in payables due to normal operational variation in payment timing.
Lease liabilities	(2,113)	Represents the decrease in lease liability for the year.
SBA loan	(45,380)	Advance of loan and grant of $160,000 less grant component of loan (due to lower-than-market interest rate) of $119,467 plus non-cash interest accretion of $4,800.
Derivative liability and convertible debentures	(1,119,145)	Proceeds of issuance of $1,040,000 plus non-cash interest accretion of $9,350 plus change in fair value of derivative liability of $78,000 less costs allocated to loan portion of $8,205.
	(1,306,521)	

Operations

As at December 31, 2020, the Company had 18 full-time employees and 1 full-time contractor. The Company continued to expand the number of stores into 14 states – Washington, California, Colorado, Oregon, Alaska, Montana, Arizona, Nevada, Oklahoma, Missouri, Massachusetts, Pennsylvania, Michigan 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.

Selected annual financial information

	December 31, 2020	December 31, 2019	December 31, 2018
	$	$	$
Consolidated statements of loss			
Revenue	**7,822,732**	3,440,100*	2,443,043
Gross margin	**1,735,064**	296,632*	193,290
Total operating expenses	**(2,630,097)**	(5,577,694)*	(3,423,900)
Other expenses	**(252,588)**	(18,001)*	(664,142)
Loss from discontinued operations*	**(103,681)**	(212,027)*	-
Loss	**(1,147,621)**	(5,511,090)	(3,894,752)
Basic and diluted loss per common share	**(0.01)**	(0.07)	(0.10)
Consolidated statements of cash flow			
Cash used for operations	**(129,868)**	(3,298,590)	(312,126)
Cash used for investing activities	**(175,932)**	(29,344)	(337,203)
Cash provided from financing activities	**889,010**	1,531,225	2,642,603
Change in restricted cash	**-**	767,246	(767,246)
Cash included in assets held for sale	**-**	42,663	-
Increase (decrease) in cash	**573,210**	(1,796,709)	1,226,028

(Expressed in United States dollars)

	December 31, 2020	December 31, 2019	December 31, 2018
Consolidated statements of financial position			
Cash	**977,654**	404,444	1,433,907
Total assets	**3,685,719**	2,022,201	4,025,660
Total liabilities	**(6,742,702)**	(3,772,618)	(3,448,150)
Shareholders' (deficiency) equity	**(3,056,938)**	(1,750,417)	577,510
Average number of common shares outstanding	**96,633,022**	78,732,074	40,364,396

Restated to reflect discontinued operations (Disposition of DoubleBeam business** section of this MD&A and note 20).*

Summary of quarterly results

	4th Quarter 2020	3rd Quarter 2020	2nd Quarter 2020	1st Quarter 2020
Revenues	**3,057,600**	**2,329,878**	**1,492,982**	**942,272**
Gross margin	**796,742**	**575,099**	**292,390**	**70,833**
Total operating expenses	**(808,318)**	**(643,104)**	**(576,501)**	**(602,174)**
Other (expenses) income	**247,023**	**32,470**	**50,649**	**(23,744)**
Gain (Loss) from discontinued operations	**142,822**	**-**	**(8,844)**	**(237,659)**
Loss	**(115,777)**	**(100,475)**	**(242,306)**	**(792,744)**
Net loss per share – basic and fully-diluted[1]	**(0.00)**	**(0.00)**	**(0.00)**	**(0.01)**
Total assets	**3,685,719**	**3,048,806**	**2,715,141**	**1,526,720**
Total liabilities	**(6,742,702)**	**(5,913,524)**	**(5,455,696)**	**(4,044,124)**
Shareholders' deficiency	**(3,056,983)**	**(2,864,718)**	**(2,740,555)**	**(2,517,404)**
Cash dividends declared per common share	**-**	**-**	**-**	**-**

	4th Quarter 2019[1]	3rd Quarter 2019[1]	2nd Quarter 2019[1]	1st Quarter 2019[1]
Total revenues	716,562	1,009,041	816,699	897,798
Gross margin (loss)	(18,483)	154,453	123,865	36,797
Total operating expenses	(1,236,389)	(867,460)	(2,647,444)	(826,402)
Other expenses (income)	18,972	(25,583)	(6,546)	(4,844)
(Loss) income from discontinued operations	(231,382)	(74,459)	73,732	20,082
Loss	(1,467,281)	(813,049)	(2,456,393)	(774,367)
Net loss per share – basic and fully-diluted[2]	(0.02)	(0.01)	(0.03)	(0.03)
Total assets	2,022,201	2,625,013	2,976,362	3,573,385

(Expressed in United States dollars)

	4th Quarter 2019[1]	3rd Quarter 2019[1]	2nd Quarter 2019[1]	1st Quarter 2019[1]
Total liabilities	(3,772,618)	(3,800,261)	(3,971,978)	(3,734,059)
Shareholders' deficiency	(1,750,417)	(1,175,248)	(995,617)	(160,673)
Cash dividends declared per common share	-	-	-	-

[1]Total revenues, gross margin (loss) and loss from discontinued operations restated to reflect discontinued operations *(*see *Disposition of DoubleBeam business* section of this MD&A and note 20*).*
[2]Inclusion of outstanding warrants and options is anti-dilutive.

Results of operations

POSaBIT has experienced exceptional growth in 2020 due to an increase in the number of stores that use POSaBIT as well as an overall increase in cannabis consumption in the US. This has had a significant increase in POSaBIT's year over year revenue growth and positive net margin. Additionally, the company continued its focus on reaching profitability through diligent management of its operational costs. This combination of strong revenue growth and cost management is why POSaBIT is now Adjusted EBITDA positive for the second quarter in a row (see *Other selected financial information* of this MD&A).

2019 amounts below have been restated to reflect continuing operations only.

Year ended December 31, 2020 and December 31, 2019

POSaBIT incurred losses during 2020 and 2019. Loss from operations for the year was $1,251,301 (2019 - $5,511,090) or $0.01 (2019 - $0.07) per share, while loss from continuing operations for the year was $103,681 (2019 -$212,027). The significant changes for continuing operations are highlighted below.

Revenues of $7,822,732 *(2019 - $3,440,100)*

The increase of approximately $4,382,000 over 2019 is due to the increase in volume of processing transactions resulting in greater payment services revenues of approximately $4,246,000. This increase was supplemented with hardware installations, resulting in higher POS services revenues of approximately $135,000.

Cost of sales of $6,087,668 *(2019 - $3,143,468)*

Processing Fees of $4,143,021 (2019 - $1,935,005)

The increase of approximately $2,208,000 over 2019 is attributable to the increased volume of processing transactions.

Software License Fees of $799,732 (2019 - $388,061)

The increase of approximately $412,000 over 2019 is result of increasing overall scale of the operations within our data center (Amazon) as well as new software tools required for development. This also includes all engineering and development allocation that is separate from employee salaries.

Inventory impairment of $108,611 (2019 - $22,171)

The increase of approximately $86,000 over 2019 is due to Inventory shrinkage from the monthly cycle count when writing the inventory up or down depending on what is in the POSaBIT office at the time of the count regardless of what is in transit or not. The account then decreases when inventory is rented out, the equipment is capitalized for two years.

Hardware cost of sales of $770,849 (2019 - $191,156)

The increase of approximately $580,000 over 2019 is due to the significant growth in merchant accounts in 2020 requiring new point of sale and payment related hardware devices.

Sales labor and commissions of $255,538 (2019 - $607,075)

The decrease of approximately $352,000 from 2019 is the result of the Company migrating to a dedicated channel sales strategy vs. a dedicated inside sales team.

Operating expenses of $2,630,097 *(2019 - $5,575,174)*

Administrative of $1,708,910 (2019 - $2,259,904)

General of $226,980 (2019 - $253,286)

The decrease of approximately $124,000 from 2019 is attributable to the following: move to mostly remote workers (due to Covid) resulting in a decrease to office supplies and maintenance, insurance, dues and subscriptions for in person event.

Meals and entertainment of $12,823 (2019 - $50,941)

The decrease of approximately $38,000 from 2019 is due to limited travel during the Covid pandemic.

Salaries of $1,292,772 (2019 - $1,680,404)

The decrease of approximately $387,000 from 2019 is the result of the Company's shifting to a direct channel strategy vs. a large internal sales team (lowering staffing costs).

Sales taxes of $151,784 (2019 - $10,331)

The increase of approximately $141,000 from 2019 due to significant increase in overall hardware and solution sales.

Travel of $24,551 (2019 - $164,942)

The decrease of approximately $140,000 from 2019 is due to limited travel during the Covid pandemic.

Amortization and depreciation of $349,935 (2019 - $301,418)

The increase of approximately $49,000 is attributable to the purchases of equipment and intangible assets during 2020.

Marketing of $178,441 (2019 - $350,097)

The decrease of approximately $172,000 from 2019 is due to limited travel during the Covid pandemic for conferences and other in-person events.

(Expressed in United States dollars)

Research and development of $nil (2019 - $337,345)

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 $132,025 (2019 - $161,046)

The decrease of approximately $29,000 from 2019 is the result the issuance of fewer options during 2020.

Transaction costs of 82,298 (2019 - $1,466,842)

Transaction costs were incurred in 2020 regarding the November 202 unit financing and for 2019 regarding the RTO transaction.

Other Expenses of $252,588/ *(2019 - $20,520)*

Change in fair value of derivative liabilities of $77,688 (2019 - $nil)

The increase of approximately $78,000 over 2019 is the result of the converted debentures issued in the 4th quarter of 2020. Note 17 provides the details of this amount.

Finance Costs of $178,670 (2019 - $68,072)

The increase of approximately $111,000 over 2019 is the result increased cash interest payments on future sales agreements (note 15) and convertible debentures (note 17) of $93,000 together with non-cash interest accretion on the derivative liability (note 17) of $18,000.

Loss on disposal of discontinued assets of $55,000 (2019 - $nil)

The increase of approximately $55,000 over 2019 is the direct result of the sale of the DoubleBeam business (see *Disposition of DoubleBeam business* section in this MD&A).

Impairment of goodwill of $nil (2019 - $26,667)

The decrease of approximately $27,000 from 2019 results from the remaining goodwill (regarding the DoubleBeam business) being written off to gain on sale of discontinued operations.

Other selected financial information

"**Adjusted EBITDA**" is a non-IFRS measure used by management that does not have any prescribed meaning by IFRS and that may not be comparable to similar measures presented by other companies. The Company defines Adjusted EBITDA as net income or loss generated for the period as reported, before interest, taxes, depreciation and amortization and is further adjusted to remove changes in fair values and expected credit losses, foreign exchange gains and/or losses, impairments. The Company believes this is a useful metric to evaluate its core operating performance.

	3 months ended				12 months ended December 31			
	2020	**2019***	**Change Fav/(Unfav)**		**2020**	**2019***	**Change Fav/(Unfav)**	
	$	$	$	%	$	$	$	%
Revenue	**3,057,600**	716,562	2,341,038	326	**7,822,732**	3,440,100	4,382,632	127
Cost of goods sold	**(2,260,858)**	(735,045)	(1,525,813)	(208)	**(6,087,668)**	(3,143,468)	(2,944,200)	(94)
Gross margin (deficit)	**796,742**	(18,483)	815,225	4,411	**1,735,064**	296,632	1,438,432	485

(Expressed in United States dollars)

	3 months ended				12 months ended December 31			
	2020	**2019***	**Change Fav/(Unfav)**		**2020**	**2019***	**Change Fav/(Unfav)**	
	$	$	$	%	$	$	$	%
Adjusted operating costs	**(824,853)**	(1,117,042)	292,589	(26)	**(2,375,654)**	(5,118,190)	2,742,536	54
Adjusted other costs (income)	**100,442**	26,667	73,755	277	**119,466**	26,667	92,799	348
Adjusted EBITDA	**72,711**	(1,108,858)	1,181,569	107	**(521,124)**	(4,794,891)	4,273,767	89

The following table reconciles annual Adjusted EBITDA to net loss, as reported in the Consolidated Financial Statements.

Year ended	**December 31, 2020**	December 31, 2019*
	$	$
Loss from continuing operations, as reported	**(1,147,621)**	(5,299,063)
Add back finance costs, as reported	**178,670**	68,071
Add back depreciation and amortization, as reported	**349,935**	301,418
Add back (deduct) change in fair values of financial instruments as reported	**1,613**	(1,158)
Add back (deduct) change in expected credit losses, as reported	**57,179**	(24,400)
Add back change in fair value of derivative liability, as reported	**77,688**	-
Add back share-based compensation, as reported	**132,025**	161,046
Add back loss on disposal of assets, as reported	**1,903**	2,154
Add back loss on disposal of discontinued business, as reported	**55,000**	-
Less foreign exchange gains	**(227,518)**	(2,959)
Adjusted EBITDA	**(521,126)**	(4,794,890)

Restated to reflect discontinued operations (Disposition of DoubleBeam business** section of this MD&A and note 20).*

Corporate and financings

Common shares

In February 2021, 11,029,565 units were issued raising $2,000,000. Each unit consists of 1 common share and 0.3627 common share purchase warrant (each whole warrant, a "**Warrant**"). Each Warrant is exercisable into one common share at C$0.35 for a period of 3 years after issuance.

There was no common share activity for the year ended December 31, 2020.

The following common share activity occurred for the year ended December 31, 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 financing costs. The share issuance costs were split between common shares ($15,724) and warrant reserve ($10,395) in proportion of the fair value of the shares and warrants. The Company also issued 342,650 agent warrants exercisable into one common share at C$0.25 for a period of 2 years. The fair value of the agent warrants was estimated at $7,553 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. The issuance costs of the warrants were split between common shares ($5,854) and warrant reserves ($1,669) in proportion of 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 issued 500,000 common shares as finders' fees valued at $60,000 split between common shares ($37,200) and warrant reserves ($22,800) and incurred cash finders fees of $119,800 . 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. The Company also issued 209,999 agent warrants exercisable into one common share at C$0.20 for a period of 2 years. The fair value of the agent warrants was estimated at $19,494 using the Black-Scholes option pricing model with the following assumptions: estimated life of 2 years, risk-free interest rate of 1.46%, cumulative volatility of 106.07% and dividends of $nil. The issuance costs of the warrants were split between common shares ($12,042) and warrant reserves ($7,381) in proportion of 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:

(Expressed in United States dollars)

- 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.

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 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	
	2020	2019
	$	$
Executive Compensation to key managers	**594,000**	460,487
Licence Fees to PlaceFull Inc.	**120,000**	120,000
Rent paid on behalf of Placefull Inc.	**12,290**	13,738
Interest on loans	**2,121**	3,282
Totals	**728,411**	597,507

At December 31, 2020, Placefull Inc. owes the Company $196,626 (December 31, 2019 - $113,368). These loans are unsecured, interest free and due on demand.

At December 31, 2020, the Company owes directors with which it had entered into loan agreements (the "**Employee Loans**"), $nil (2019 - $35,000). During 2020, the Employee Loans were repaid in full.

(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, 2020, the Company's financial instruments consist of cash and cash equivalents, receivables, due from related parties, due from sale of discontinued operations, accounts payable and accrued liabilities, and note payable and for the comparative year, due to related parties. 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 at amortized cost.

Financial instrument 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, 2020, $1,921,568 (2019 – $467,928) in receivables was 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:

December 31, 2020	**1-30**	**31-60**	**61-90**	**>90**	**Total**
	$	$	$	$	$
Accounts receivable outstanding	1,817,385	15,829	17,454	70,900	1,921,568
Expected loss rate (%)	1.0%	3.0%	3.5%	5.0%	
Loss allowance provision	18,174	475	611	3,545	22,805
Change of loss provision for DoubleBeam	-	-	-	3,745	3,745
Net change in loss	18,174	475	611	7,290	26,550
Accounts receivable, net	1,799,211	15,354	16,843	63,610	1,895,018

(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

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.

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, 2020 and 2019. There are no external capital management requirements or covenants as at December 31, 2020 and December 31, 2019.

Other risks 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.

(Expressed in United States dollars)

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, 2021	April 5, 2022
6,130,210	3,065,105	3,065,105