



POSaBIT Systems Corporation

Unaudited Interim Consolidated Financial Statements
As at and for the Three Months Ended March 31, 2021 and 2020
(expressed in United States Dollars)

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of POSaBIT Systems Corporation (the “Company”) have been prepared by and are the responsibility of management. These unaudited interim consolidated financial statements as at and for the three months ended March 31, 2021 and 2020 have not been reviewed by the Company's auditors.



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim consolidated financial statements of POSaBIT Systems Corporation are the responsibility of the management and the Board of Directors (the "**Board**") of the Company and have been prepared in accordance with the accounting policies disclosed in the notes to the unaudited interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the interim unaudited consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting of International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

The Board is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

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.

As the Company is a Venture Issuer (as defined under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) ("**NI 52-109**"), 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, as defined in NI 52-109, **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.

"Ryan Hamlin"

Ryan Hamlin
President and Chief Executive Officer

May 24, 2021

"Stephen M. Gledhill"

Stephen M. Gledhill
Chief Financial Officer

May 24, 2021



	March 31, 2021	December 31, 2020
ASSETS	\$	\$
Current assets		
Cash	4,957,246	977,654
Receivables (notes 5 and 18)	1,719,306	1,895,018
Sales taxes recoverable	119	316
Due from sale of discontinued operations (note 21)	-	65,000
Due from related parties (note 13)	206,431	196,626
Digital assets (note 4)	6,021	3,870
Inventories (note 6)	156,474	74,727
Prepaid expenses and deposits	122,419	128,629
Total current assets	7,168,016	3,341,840
Other asset (note 7)	120,000	120,000
Right-of-use asset (note 8)	6,351	25,398
Equipment, net (note 9)	198,134	178,371
Intangible assets (note 10)	-	20,110
Total assets	7,492,501	3,685,719
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable	7,004,331	4,993,207
Accrued liabilities	366,066	358,558
Lease liability (note 11)	6,702	26,414
Note payable (note 12)	-	200,000
Total current liabilities	7,377,099	5,578,179
Convertible debt (note 13)	97,394	92,469
Derivative liability (note 14)	1,312,403	1,026,676
Government loan (note 15)	47,389	45,380
Total liabilities	8,834,285	3,772,618
Shareholders' deficiency		
Share capital (note 16.2)	13,037,539	11,198,735
Warrant reserve (note 16.4)	589,433	360,016
Contributed surplus (note 16.5)	546,096	489,638
Deficit	(15,399,387)	(14,885,305)
Currency translation reserve	(115,463)	(220,067)
Total shareholders' deficiency	(1,341,782)	(3,056,983)
Total liabilities and shareholders' deficiency	7,492,501	3,685,719
Subsequent events (note 26)	<u>"Don Tringali"</u>	(Director)
	<u>"Mike Apker"</u>	(Director)

POSaBIT Systems Corporation
 Unaudited Interim Consolidated Statements of Loss
 For the three months ended March 31,
 (Expressed in United States Dollars)



	2021	2020
	\$	\$
REVENUE (note 19)		
Digital assets processing services	3,546,343	942,272
Total revenue	3,546,343	942,272
COST OF SALES		
Processing fees	1,934,267	629,039
Software license fees	241,911	58,309
Inventory impairment	65,546	17,941
Hardware cost of sales	304,911	115,351
Sales labour and commissions	99,992	50,799
Total cost of sales	2,646,627	871,439
Gross margin	899,716	70,833
OPERATING EXPENSES		
Administrative (note 22)	563,635	377,420
Amortization and depreciation	74,152	96,449
Forex	107,156	(8,751)
Investor relations and public reporting	1,184	4,860
Marketing	60,704	43,010
Professional fees	173,421	81,346
Share-based compensation (note 16.3)	56,458	35,211
Transaction costs (note 20)	9,331	-
Total operating expenses	1,046,041	629,544
OTHER INCOME (EXPENSES)		
Change in expected credit losses	8,636	27,371
Change in fair value of derivative liability (notes 13 & 14)	(322,381)	-
Change in fair value of digital assets	2,151	(2,847)
Loss on disposal of assets	(1,301)	(928)
Interest expense	(34,186)	(19,65)
Interest accretion	(20,676)	(364)
Total other expenses	(367,757)	(206,873)
LOSS	(514,082)	(555,084)
Loss from discontinued operations (note 21)	-	(237,659)
NET LOSS	(514,082)	(792,743)
Basic and diluted loss per common share	(0.01)	(0.01)
Basic and diluted weighted average number of common shares outstanding	102,445,751	67,671,655

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

POSaBIT Systems Corporation

Unaudited Interim Consolidated Statements of Comprehensive Loss

For the three months ended March 31,

(Expressed in United States Dollars)

	2021	2020
	\$	\$
Net loss	(514,082)	(792,743)
Other comprehensive loss:		
Item that may not be reclassified to net loss -		
Foreign translation adjustment of parent	104,604	(9,455)
Comprehensive loss	(409,478)	(802,198)

POSaBIT System Corporation

 Unaudited Interim Consolidated Statement of Changes in Deficiency
 (Expressed in United States Dollars)


	Common shares		Contributed surplus	Warrant reserve	Currency translation reserve	Deficiency	Total
	Number	Amount					
		\$	\$	\$	\$	\$	\$
December 31, 2019	97,252,826	11,198,735	464,957	370,689	(32,777)	(13,752,021)	(1,750,417)
Share-based compensation	-	-	35,211	-	-	-	35,211
Loss from continued operations	-	-	-	-	(9,455)	(555,084)	(564,539)
Loss from discontinued operations	-	-	-	-	-	(237,659)	(237,659)
March 31, 2020	97,252,826	11,198,735	500,168	370,689	(42,232)	(14,544,764)	(2,517,404)
Expiry of agent warrant	-	-	-	(10,673)	-	10,673	-
Expiry of options	-	-	(107,344)	-	-	107,344	-
Share-based compensation	-	-	96,814	-	-	-	96,814
Loss from continued operations	-	-	-	-	(177,835)	(592,535)	(770,370)
Income from discontinued operations	-	-	-	-	-	133,978	133,978
December 31, 2020	97,252,826	11,198,735	489,638	360,016	(220,067)	(14,885,305)	(3,056,983)
Shares issued for cash	11,029,565	2,000,000	-	-	-	-	2,000,000
Shares issued on conversion of debt	530,500	50,000	-	-	-	-	50,000
Warrants issued	-	(222,690)	-	222,690	-	-	-
Advisory warrants issued	-	-	-	9,331	-	-	9,331
Exercise of agent warrants	74,083	8,890	-	-	-	-	8,890
Fair value of exercised agent warrants	-	2,604	-	(2,604)	-	-	-
Share-based compensation	-	-	56,458	-	-	-	56,458
Comprehensive loss	-	-	-	-	106,604	(514,082)	(409,478)
March 31, 2021	108,886,974	13,037,539	546,096	589,433	(115,463)	(15,399,387)	(1,341,782)

The accompanying notes are an integral part of these unaudited interim consolidated financial statements



	2021	2020
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(514,082)	(792,743)
Adjustment for non-cash items		
Amortization and depreciation	74,152	97,744
Change in fair value of digital assets	(2,151)	2,848
Change in expected credit losses	(8,636)	(27,371)
Change in fair value of derivative liability (notes 13 & 14)	322,281	-
Forex	103,346	(9,455)
Loss on disposal of equipment	1,301	928
Impairment of goodwill	-	210,500
Interest accretion	20,675	364
Share-based compensation	56,458	35,211
Transaction costs (note 20)	9,331	-
Working capital changes in operating assets and liabilities (note 23.1)	2,127,639	340,344
Net cash provided by (used for) operating activities	2,190,414	(141,640)
INVESTING ACTIVITIES		
Purchase of equipment	(54,801)	(33,866)
Net cash used for investing activities	(54,801)	(33,866)
FINANCING ACTIVITIES		
Exercise of warrants	8,890	-
Issuance of common shares for cash	2,000,000	-
Proceeds from sale of discontinued operations	65,000	-
Repayment of lease liabilities	(21,106)	(18,499)
Repayment of notes payable (note 12)	(200,000)	-
Repayments to related parties	(9,805)	(36,073)
Net cash provided by (used for) financing activities	1,843,979	(54,572)
Increase (decrease) in cash during the period	3,979,592	(230,078)
Cash included in assets classified as held for sale	-	(33,475)
Cash, beginning of year	977,654	404,444
Cash, end of period	4,957,246	140,891

Supplemental cash flow information (note 23.2)

POSaBIT Systems Corporation

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in United States Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

POSaBIT Systems Corporation (“**POSaBIT**” or the “**Company**”), was incorporated on June 12, 2017, pursuant to the *Business Corporations Act* (British Columbia). On April 5, 2019, the Company completed the reverse acquisition of POSaBIT, Inc. (“**POSaBIT US**”), a private company incorporated under the laws of the State of Washington, by way of a triangular merger (the “**Transaction**”). Upon completion of the Transaction, the Company changed its name to POSaBIT Systems Corporation and now primarily involve the point-of-sale arrangements designed to offer consumers an easy way to purchase goods and services. Pursuant to the Transaction, the shareholder of POSaBIT US received 1.7539815 securities of the Company for each security of POSaBIT US held including common shares, options, and warrants.

In connection with the Transaction, the Company 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 11915 124th Ave. NE, Kirkland, Washington 98034. Its registered address in Canada is 77 King Street West, Suite 400, Toronto, Ontario, M5K 0A1.

These consolidated financial statements (the “**Financial Statements**”) have been prepared on the assumption that the Company 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 its inception that have been funded through both operating and financing activities.

As at March 31, 2021, the Company has a reported a working capital deficit of \$209,082 (December 31, 2020 – \$2,236,339) and has a shareholders’ deficiency \$1,341,783 (December 31, 2020 – \$3,056,983). These factors indicate the existence of 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 and possibly beyond to support current operations and planned development and expansion activities. 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.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with *International Accounting Standards (“IAS”) 34* ‘Interim Financial Reporting’ using accounting policies consistent with the IFRS issued by the International Accounting Standards Board (“**IASB**”) and Interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”).

The Financial Statements were approved and authorized for issuance by the Board on May 24, 2021.



POSaBIT Systems Corporation

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in United States Dollars)

2.2 Basis of presentation and measurement

The Financial Statements have been prepared on the historical cost basis, modified where applicable. In addition, the Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

2.3 Basis of consolidation

The Financial Statements consolidate the accounts of the Company and its wholly-owned subsidiaries, DoubleBeam, Inc. (“**DoubleBeam**”) and POSaBIT US, Inc. (together, the “**Subsidiaries**”).

All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries are entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date on which control ceases.

3. ADOPTION OF NEW AND REVISED STANDARDS AND RECENT PRONOUNCEMENTS

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2021. The following IFRS amended standards have been issued but not yet adopted, as they are being evaluated to determine their impact on the Company.

IFRS 10 – Consolidated Financial Statements (“**IFRS 10**”) and IAS 28 – Investments in Associates and Joint Ventures (“**IAS 28**”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of the amendments to IFRS 10, is yet to be determined, however early adoption is permitted. The Company has not yet adopted this standard and is assessing its impact on its consolidated financial statements.

IAS 1 – Presentation of Financial Statements (“**IAS 1**”). In January 2020, the classification of liabilities as current or non-current was amended. An entity shall apply the amendments for annual reporting periods on or after January 1, 2023, retrospectively in accordance with IAS 8 – Accounting Policies, changes in accounting estimates and errors. The Company has not yet adopted this amendment and is currently assessing the effects on its consolidated financial statements.

IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use (“**IAS 16**”). The Standard was amended in 2020 to provide for the costs of testing whether a product is functioning properly in accordance with management’s expectations and the disclosure of those costs. An entity shall apply the amendments for annual reporting periods on or after January 1, 2022, with early adoption permitted. The Company has not yet adopted this amendment and is currently assessing the effects on its consolidated financial statements.

IAS 37 – Provisions contingent liabilities and contingent assets (“**IAS 37**”). The Standard was amended in May 2020 to expand on the definition of onerous contracts and the costs to be included in fulfilling a contract. An entity shall apply the amendments for annual reporting periods on or after January 1, 2022, with early adoption permitted. The Company has not yet adopted this amendment and is currently assessing the effects on its consolidated financial statements.



POSaBIT Systems Corporation

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

*(Expressed in United States Dollars)***4. DIGITAL ASSETS**

Digital assets consist of Litecoin (LTC) coins.

5. RECEIVABLES

	March 31, 2021	December 31, 2020
	\$	\$
Receivables	1,739,633	1,921,568
Allowance for expected credit losses	(20,327)	(26,550)
	1,719,306	1,895,018

The receivables are generally on terms due within 30 days.

The Company adopted IFRS 9 on January 1, 2018. For the three months ended March 31, 2020, the Company recognized changes in expected credit losses of \$27,371 (2019 - \$37,142).

6. INVENTORIES

	March 31, 2021	December 31, 2020
	\$	\$
Finished goods	156,474	74,727
	156,474	74,727

7. OTHER ASSET

The other asset in the amount of \$120,000 is a surety bond provided by Philadelphia Insurance and required for the Company's Money Transfer Licence in Washington State.

8. RIGHT-OF-USE ASSET

The Company has recognized a right-of-use asset for its office premises with a corresponding lease liability (note 14) which is initially measured at the present value of the future lease payments. In accordance with IFRS 16, the Company then recognizes depreciation of right-of-use asset and interest expense on lease liability in the statements of income and comprehensive income.

	\$
Balance, December 31, 2019	22,042
Amortization	(16,530)
Balance December 31, 2020	25,398
Amortization	(19,047)
Balance March 31, 2021	6,351



POSaBIT Systems Corporation

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

*(Expressed in United States Dollars)***9. EQUIPMENT, net**

Cost	
	\$
December 31, 2019	140,397
Additions	175,932
Disposed	(20,232)
December 31, 2020	296,097
Additions	54,801
Disposed	(4,283)
March 31, 2021	346,615

Accumulated Depreciation

December 31, 2019	41,652
Depreciation	93,898
Disposed	(17,824)
December 31, 2020	117,726
Depreciation	33,737
Disposed	(2,982)
March 31, 2021	148,481

Net Book Value

December 31, 2020	178,371
March 31, 2021	198,134

10. INTANGIBLE ASSETS, net**Software**

Cost	
	\$
December 31, 2019	793,192
Disposals	(50,000)
December 31, 2020 and March 31, 2020	743,192

Accumulated Amortization

December 31, 2019	576,880
Amortization	188,425
Disposed	(42,223)
December 31, 2020	723,082
Amortization	20,110



POSaBIT Systems Corporation

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in United States Dollars)

March 31, 2021	743,192
<hr/>	
Net Book Value	
December 31, 2020	20,110
March 31, 2021	-

11. LEASE LIABILITY

The Company has recognized a right-of-use asset (note 8) for its office premises with a corresponding lease liability which is initially measured at the present value of the future lease payments. In accordance with IFRS 16, the Company then recognizes depreciation of right-of-use asset and interest expense on lease liability in profit or loss.

The Company has entered into one lease for office space. In order to calculate the present value of the future lease payments, the Company has used a discount rate of 12% which represents its incremental borrowing rate. Prior to the adoption of IFRS 16, this lease was accounted for as an operating lease. Changes to the Company's lease liability is as follows:

	\$
Balance, December 31, 2019	24,301
Additions	76,188
Interest expense	4,207
Lease payments	(78,282)
Balance December 31, 2020	26,414
Interest expense	394
Lease payments	(20,106)
Balance March 31, 2021	6,702

12. NOTE PAYABLE (2020)

On May 6, 2019, the Company issued an unsecured note payable ("**Note 2**") in the amount of \$200,000. Starting May 6, 2019, Note 2 accrued interest at 18% per annum, with interest payable on a quarterly basis. Note 2 can be repaid in full at any time. Note 2 originally matured on September 30, 2020, but the expiry date has been extended to December 31, 2020. Prior to the reporting period end date, Note 2, including accrued interest, was repaid in full. For the 3 months ended March 31, 2021, interest expense of \$8,877 (2020 - \$8,975) has been recorded.

On September 20, 2018, the Company issued an unsecured note payable ("**Note 1**") in the amount of \$200,000. Starting October 1, 2018, Note 1 accrued interest at 18% per annum, with interest payable on a quarterly basis. Note 1 can be repaid in full at any time. Note 1 originally matured on September 30, 2020, but the expiry date was extended to December 31, 2020. Prior to December 31, 2020, Note 1, including accrued interest, was repaid in full. For the 3 months ended March 31, 2021, interest expense of \$nil (2020 - \$8,975), has been recorded.



POSaBIT Systems Corporation

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in United States Dollars)

13. CONVERTIBLE DEBT

During the year ended December 31, 2020, the Company completed a non-brokered financing of \$1,040,000 (the “**Financing**”), by way of issuance of convertible notes (the “**Convertible Notes**”). The Convertible Notes carry an interest rate of 12.0% per annum, payable on a calendar- quarterly basis and have a maturity date of December 31, 2023. At any time prior to December 1, 2023, at the election of the holder, outstanding principal of the Convertible Notes may be converted into common shares of the Company at CDN\$0.12 per common share.

In connection with the Financing, the Company incurred cash issue costs of \$64,450 and issued 5,650,233 common-share purchase warrants (each a “**Warrant**”), each with an exercise price of C\$0.12 and maturity date of November 13, 2025 and 349,608 finder warrants (each a “**Finder Warrant**”), each with an exercise price of C\$0.12 and maturity date of November 13, 2022.

As the conversion price is a function of the market price on the date of conversion, a variable number of shares will be issued on conversion, resulting in a derivative liability. On initial recognition, first the derivative liability (the “**Initial Derivative Liability**”) of \$948,988 was recognized (note 15), with the residual value of \$91,012 allocated to the debt component. The fair value of the Finder Warrants of \$25,741 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk-free rate of 0.33%, expected life of 1 year, exercise price of \$0.09, volatility of 237%, dividend yield of 0% and share price of \$0.11. \$7,893 of the fair value of the Finder Warrants and the cash costs of the issuance were deducted from the host liability with the residual value of \$82,299 being recorded as finance cost in profit and loss.

The residual value is then accreted back to the face value of the Convertible Notes over the term of the loan and the derivative liability is marked-to-market at each reporting date.

During the 3 months ended March 31, 2021, \$50,000 in face-value of the Convertible Notes was converted resulting in the issuance of 530,500 common shares (note 16.2).

Interest accretion for the Convertible Notes for the 3 months ended March 31, 2021 of \$18,271 (2020 - \$nil) has been recorded in the consolidated statements of loss. As at December 31, 2020, the Company revalued the derivative liability and recorded a loss of \$77,688 (2019 - \$nil) in the consolidated statements of loss.

14. DERIVATIVE LIABILITY

Upon issuance of the Convertible Notes and due to the variable number of shares issuable on conversion (due to the conversion price being in Canadian dollars with the underlying debt denominated in United States dollars), the Initial Derivative Liability was recognized. The fair value of derivative liabilities is recalculated at each reporting date, with the gain or loss being reported in the consolidated statement of loss.

As at March 31, 2021, the Company revalued the derivative liability and recorded a loss of \$322,381 (2020 - \$nil) in the consolidated statements of loss.

15. GOVERNMENT LOAN

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. 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.



POSaBIT Systems Corporation

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in United States Dollars)

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 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 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. During the year ended December 31, 2020, the Company received \$10,000 advance grant from the government that is not required to be repaid.

During the 3 months ended March 31, 2021, the Company recorded \$2,010 (2020 - \$nil) of non-cash interest accretion.

16. SHARE CAPITAL

Common and preferred shares

16.1 Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

16.2 Issued and outstanding

2021

In March 2021, 74,083 finder warrants were exercised raising proceeds of \$8,890. The fair value of the exercised warrants of \$3,246 was transferred from warrant reserve to share capital.

In February 2021, the Company completed a private placement consisting of 11,029,565 units (each a “Unit”), raising gross proceeds of \$2,000,000. Each Unit consists of 1 common share and 0.3627 warrants (each full warrant, a “Warrant”). A total of 4,000,419 Warrants were issued, with each Warrant exercisable for 3 years at a price of C\$0.35. The fair value of the Warrants was estimated at \$222,690 using the Black-Scholes option pricing model with the following assumptions: estimated life of 3 years, risk-free interest rate of 0.30%, cumulative volatility of 167.14%, dividends of \$0.00 and an underlying share price of C\$0.275. There were no financing costs of the private placement.

In January 2021, \$50,000 of the Convertible Notes were converted and cancelled, resulting in the issuance of 530,500 common shares.

2020

In March 2020, the Company issued 3,024,643 common shares to POSaBIT US shareholders that had not originally received the exchange ratio upon conversion of their shares to Company shares, pursuant to the Transaction.

16.3 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.



POSaBIT Systems Corporation

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in United States Dollars)

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

16.4 Warrants

In January 2021, the Company issued 125,000 advisory warrants (each, an “**Advisor Warrant**”). Each Advisor Warrant is exercisable for a period of 2 years at an exercise price of C\$0.12. The fair value of the Advisor Warrants was estimated at \$9,331 using the Black-Scholes option pricing model with the following assumptions: estimated life of 2 years, risk-free interest rate of 0.15%, cumulative volatility of 136.47%, dividends of \$0.00 and an underlying share price of C\$0.175.

A continuity of the Company’s outstanding warrants follows:

	Number of warrants	Exercise price \$
Outstanding at December 31, 2019	17,959,346	C0.26
Issued during 2020	5,992,883	C0.12
Balance at December 31, 2020	23,930,727	C0.23
Issued during 2021	4,125,419	C0.34
Exercised	(74,083)	C0.15
	27,807,259	C0.25

The outstanding issued warrants balance as at March 31, 2020 is comprised of the following items:

Date of expiry	Type	Number of warrants	Exercise price \$
August 1, 2021	Warrants	6,026,597	C0.30
August 1, 2021	Finders warrants	135,916	C0.15
October 31, 2021	Warrants	11,178,000	C0.25
November 1, 2021	Finders warrants	342,650	C0.15
November 13, 2022	Finder warrants	174,804	C0.12
January 31, 2023	Advisor warrants	125,000	C0.12
February 22, 2024	Warrants	4,000,419	C0.35
November 13, 2025	Warrants	5,541,575	C0.12
July 10, 2027	Warrants	173,640	0.14
March 31, 2021		27,698,601	C0.25



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*(Expressed in United States Dollars)***16.5 Stock options and contributed surplus**

POSaBIT has a stock option plan (the “Plan”) pursuant to which options to purchase common shares of the Company may be granted to certain officers, directors, employees and consultants of the Company. The Plan allows for a fixed issuance of up to 20% of the issued and outstanding common shares upon completion of the Transaction, being 16,610,000. As at March 31, 2021, the Company had 3,819,506 options available for issuance. A continuity of the unexercised options to purchase common shares is as follows:

The number and prices of the outstanding options are as follows:

	Number of options	Weighted average exercise price
		\$
Outstanding as at December 31, 2019	12,790,494	0.10
Granted	3,956,895	0.07
Cancelled	(1,661,895)	(0.23)
Forfeit	(3,492,525)	(0.19)
Outstanding as at December 31, 2020	11,592,969	0.06
Issued	744,400	C0.275
Outstanding as at March 31, 2021	12,337,369	0.06
Exercisable, as at March 31, 2021	8,230,653	0.05

For the 3 months ended March 31, 2021, the Company recognized share-based compensation expense of \$56,458 (2020 - \$35,211).

The options outstanding and exercisable as at March 31, 2021 are comprised of the following items:

Date of expiry	Number of options outstanding	Exercise price	Weighted average remaining life (years)
January 9, 2022	1,208,270	0.05	1.0
May 9, 2022	35,080	0.40	1.3
December 5, 2025	2,635,358	0.01	4.9
March 4, 2026	2,630,973	0.05	5.2
January 9, 2028	175,398	0.05	7.0
March 28, 2028	1,613,662	C\$0.095	7.3
August 8, 2028	35,074	C\$0.095	7.6
October 4, 2029	13,154	C\$0.095	8.8
October 17, 2029	951,000	C\$0.15	8.8



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Date of expiry	Number of options outstanding	Exercise price	Weighted average remaining life (years)
October 1, 2030	2,295,000	C\$0.095	9.8
March 11, 2031	744,400	C\$0.275	10.0
Outstanding	12,337,369		7.4
Exercisable	8,230,653		6.7

17. 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:

3 months ended March 31,	2021	2020
	\$	\$
Executive compensation to key managers	215,000	134,000
Licence fees to PlaceFull Inc.	30,000	30,000
Totals	245,000	164,000

As at March 31, 2021, PlaceFull Inc. owed the company \$201,729 (December 31, 2020 - \$196,626). This loan is unsecured, interest free and due on demand.

18. 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.



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At March 31, 2021, the Company's financial instruments consist of cash, receivables, due from related parties, accounts payable and accrued liabilities, lease liability, derivative liability and note payable for the comparative year. The fair values of cash, receivables, due from related parties, accounts payable and accrued liabilities, lease liability and note payable for the comparative year approximate their carrying values due to the relatively short-term to maturity nature. The Company classifies its derivative liability at fair value through profit and loss.

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 March 31, 2021, \$1,719,306 (December 31, 2020 – \$1,895,018) 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. As at March 31, 2021 the Company has evaluated its receivables due from its processors and determined the lifetime expected credit losses are nominal.

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



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management policies for the 3 months ended March 31, 2021 and year ended December 31, 2020. There are no external capital management requirements or covenants as at March 31, 2021 and December 31, 2020.

19. REVENUE

POSaBIT has 2 main revenue streams: Payment Services and Point-of-Sale (“POS”) Services. The POSaBIT Payments Services generate revenue via setup costs, hardware costs, transaction fees and convenience fees. The POSaBIT POS has a traditional software-as-a-service subscription model (pay per terminal/console on a monthly, or yearly basis).

19.1 Payment Services

Payment Services are comprised of the following revenue generating transaction services:

Convenience fees - Charges to the end consumer for each transaction.

Set-up fees - Installation fees to each merchant.

Subscription fees - Charge merchants a monthly or yearly subscription fee per terminal/console. 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.

Transaction fees - Each debit charge to the merchant is variable based on volume projections by merchant. In addition, the Company also charges a “per swipe” fee paid by the merchant.

19.2 POS Services

POS Services comprise the following revenue generating transaction services:

Hardware and installation - POSaBIT charges the merchant for the cost of the hardware.

The Company generated the following revenues for the years ended December 31, 2020 and 2019 (net of revenues from discontinued operations):

3 months ended March 31,	2021	2020
	\$	\$
Payment services		
Convenience fees	2,279,704	660,069
Set-up fees	6,900	3,600
Subscription fees	-	25,993
Transaction fees	749,637	223,371
	3,036,241	913,033
POS Services	510,102	29,239
Total revenue	3,546,343	942,272



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For the three months ended March 31, 2021 and 2020

*(Expressed in United States Dollars)***20. TRANSACTION COSTS**

The Company incurred the following transaction costs:

	2021	2020
	\$	\$
Issuance of advisor warrants <i>(note 16.4)</i>	9,331	-
	9,331	-

21. DISCONTINUED OPERATIONS (2020)

In May 2020, the Company completed the disposition of 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.

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

3 months ended March 31,	2021	2020
	\$	\$
Revenue		
Digital processing services	-	735,123
Processing fees	-	70,562
Software license fees	-	86,791
Hardware cost of sales	-	241,244
Sales labour and commissions	-	35,114
Cost of sales	-	433,711
Gross Margin	-	301,412
Administrative <i>(note 25)</i>	-	256,252
Amortization and depreciation	-	16,111
Marketing expense	-	23
Professional fees	-	28,548
Operating costs	-	300,934
Change in expected credit losses	-	(11,556)
Loss on disposal of assets	-	(949)
Impairment of goodwill and customer lists	-	(200,000)
Other expenses	-	(212,505)
Loss from discontinued operations	-	(212,027)
Loss per share from discontinued operations	-	(0.00)
Cash provided from (used for) discontinued operations	-	13,315
Cash used for discontinued investing activities	-	(16,672)



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*(Expressed in United States Dollars)***22. ADMININSTATIVE COSTS**

The Company incurred the following administrative costs:

3 months ended March 31,	2021	2020
	\$	\$
General	152,676	69,781
Meals and entertainment	1,569	5,425
Salaries and wages	404,890	291,552
Travel	4,500	10,662
Total administrative costs	563,635	377,420

23. ADDITIONAL CASH FLOW INFORMATION**23.1 Working capital changes in operating assets and liabilities:**

3 months ended March 31,	2021	2020
	\$	\$
Sales taxes recoverable	197	(247)
Receivables	184,348	50,258
Inventory	(81,747)	(49,540)
Prepaid expenses	6,210	35,223
Accounts payable and accrued liabilities	2,018,631	304,640
Working capital changes in operating assets and liabilities	2,127,639	340,344

23.2 Supplemental cash flow information

3 months ended March 31,	2021	2020
	\$	\$
<i>Non-cash financing activities:</i>		
Conversion of convertible debt	50,000	-
<i>Cash interest paid</i>	24,186	61,485

24. COMMITMENTS**Software Licence**

The Company has a software licence agreement with PlaceFull, requiring it to pay \$10,000 per month to PlaceFull to use their payment, billing and customer management software perpetually until either party terminates the agreement.



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25. SEGMENTED INFORMATION**Operating segments**

The Company's sole operating segment is the provision of point-of-sale arrangements designed to offer consumers an easy way to acquire digital currency and use it to purchase goods and services. As such, its operating segment information is the same as that reporting in the Consolidated Financial Statements.

Geographic segments

The Company operates in two geographic segments being Canada and the United States.

	March 31, 2021	December 31, 2020
	\$	\$
Non-current assets:		
Canada	-	-
United States	324,485	343,879
	324,485	343,879
<hr/>		
3 months ended March 31,	2021	2020
	\$	\$
Revenue		
Canada	-	-
United States	3,546,343	942,272
Total revenues	3,546,343	942,272

26. SUBSEQUENT EVENTS**26.1 Conversion of note**

In May 2021, \$20,000 in face-value of the Convertible Notes was converted resulting in the issuance of 210,516 common shares.

26.2 Finder warrant exercise

In May 2021, 4,889 finder warrants were exercised raising proceeds of \$466.

26.3 Warrant exercise

In May 2021, 108,658 warrants were exercised raising proceeds of \$10,348.

26.4 Option exercise

In May 2021, 11,102 options were exercised raising proceeds of \$1,176.

