



POSaBIT Systems Corporation

Interim Management's Discussion and Analysis

Quarterly Highlights

Three months ended March 31, 2022

(reported in US Dollars)

May 26, 2022

POSaBIT Systems Corporation

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended March 31, 2022 (Reported in US Dollars)

This interim management discussion and analysis – quarterly highlights (“Interim MD&A”) has been prepared based on information available to POSaBIT Systems Corporation (“POSaBIT” or the “Company”) at May 26, 2022. This Interim MD&A is based on information available to POSaBIT and updates disclosure previously provided in the Company’s Annual and interim MD&A’s, up to the date of this Interim MD&A and should be read in conjunction with the Company’s unaudited interim consolidated financial statements and the related notes as at and for the three and nine months ended March 31, 2022 and 2021 (the “Consolidated Financial Statements”) and the Company’s audited consolidated financial statements for the years ended December 31, 2021 and 2020 (the “Audited Consolidated Financial Statements”). Both the Audited Consolidated Financial Statements and the Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this Interim 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 SEDAR at www.sedar.com or on the Company’s website at www.posabit.com.

As the Company is a Venture Issuer (as defined under 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 Internal Controls over Financial Reporting (“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 basis 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 project parameters as plans continue to be refined; changes in labour costs and other costs of materials, equipment or processes to operate as anticipated; accidents, labour disputes and other risks and delays in obtaining governmental approvals or financing or in the completion of research and development activities. 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 Interim 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.



POSaBIT Systems Corporation
INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS
QUARTERLY HIGHLIGHTS
Three months ended March 31, 2022
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General

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.

The unaudited interim consolidated 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 the inception that have primarily been funded through financing activities.

As at March 31, 2022, the Company has a reported working capital of \$543,051 (December 31, 2021 - \$1,691,273) and has a shareholders' deficiency \$8,199,624 (December 31, 2021 – \$8,707,142). 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.

The Consolidated Financial Statements were authorized for issuance by the Board of Directors of the Company on May 25, 2022. Any reference to “**note**” or “**notes**” in this MD&A, refers to the corresponding note(s) in the Consolidated Financial Statements.

Financial condition

As at March 31, 2022, the Company had assets totaling \$6,765,327 and shareholders' deficiency of \$8,199,624. This compares with assets of \$7,903,775 and shareholders' deficiency of \$8,707,142, at December 31, 2021.

During the quarter ended March 31, 2022, the Company's net assets increased by \$507,518, the result of an decrease in liabilities of \$1,645,966, offset by a lesser decrease in assets of \$1,138,448. The decrease in liabilities was primarily driven by a non-cash decrease of \$1.6 million in the fair value of the derivative liability, as noted below and in note 8.

Changes in the Company's net assets are detailed as follows:



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Item	Change	Explanation of change
	\$	
Cash	(1,184,648)	Cash used for operating activities of \$1,078,017 plus cash used for investing activities of \$103,496 plus cash used for financing activities of \$3,135.
Receivables and sales taxes recoverable	(192,554)	Receivables decreased with increased collection efforts and procedures.
Prepaid expenses and deposits	51,751	The increase is the result of normalized annual expenditures and the recording of monthly expenses.
Digital assets	(3,045)	Normal mark-to-market change.
Due from related parties	942	Details for key management disclosed in note 11 and in the <i>Transactions with related parties</i> section of this MD&A.
Inventories	143,078	Finished inventory increased as the Company geared up for increased requirements resulting from increased sales.
Equipment	46,028	Approximately \$103,000 of purchases offset by depreciation of approximately \$57,000
Change in assets, increase	(1,184,476)	
Accounts payable and accrued liabilities	36,254	Increase in payables due to normal operational variation in payment timing.
Government loan	44	The decrease is due to accretion for the quarter of \$2,149 less payments made of \$2,193.
Derivative liability	1,637,649	Change in fair value of the remaining derivative liability for the quarter. There were no conversions during the quarter.
Convertible notes	(27,981)	The change for the quarter is entirely due to interest accretion on the convertible notes.
Change in liabilities, increase	1,645,966	
Increase in net assets	507,518	

Results of operations

Selected financial results of operations are summarized below:

	3 months ended March 31,			
	2022	2021	Year-over-year change Favourable/(Unfavourable)	
	\$	\$	\$	%
Revenue	6,359,733	3,546,342	2,813,391	79
Cost of goods sold	(4,832,766)	(2,646,626)	(2,186,140)	(83)
Gross margin	1,526,967	899,716	627,251	70
Operating expenses, excluding forex	(3,235,978)	(929,553)	(2,306,425)	(248)
Forex	(320,202)	(107,156)	(213,046)	199
	(2,029,213)	(136,993)	(1,892,220)	(1,381)



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Other income (expense)	1,559,459	(377,088)	1,936,547	514
Loss	(469,754)	(514,081)	44,327	9

POSaBIT's year over year growth continues to be strong. This is due to an increase in the volume of stores served by POSaBIT payments and POSaBIT Point of sales, as well as an overall increase in the number of states where cannabis is legal in the United States. This resulted in exceptional year over year revenue and gross margin growth. POSaBIT continues to invest in growth but also diligently manage our operational costs.

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.

	Current year quarter-over-quarter				Year-over-year			
	March 31, 2022	Dec. 31, 2021	Change Fav/(Unfav)	%	March 31, 2022	March 31, 2021	Change Fav/(Unfav)	%
	\$	\$	\$	%	\$	\$	\$	%
Revenue	6,359,733	6,433,497	(73,764)	(1)	6,359,733	3,546,342	2,813,391	79
Cost of goods sold	(4,832,766)	(4,950,653)	117,887	2	(4,832,766)	(2,646,626)	(2,186,140)	(83)
Gross margin (deficit)	1,526,967	1,482,844	44,123	3	1,526,967	899,716	627,251	70
Adjusted operating costs	(2,518,589)	(2,549,328)	30,739	1.2	(2,518,589)	(798,943)	(1,719,646)	(215)
Adjusted other costs (income)	-	-	-	-	-	-	-	-
Adjusted EBITDA	(991,622)	1,066,484	74,862	(7)	(991,622)	100,773	(1,092,395)	(1,084)



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

	March 31, 2022	Dec. 31, 2021*	March 31, 2021
	\$	\$	\$
Loss, as reported	(469,754)	(2,269,951)	(514,081)
Add-back/(deduct) foreign exchange gains, as reported	320,202	(83,274)	107,156
Add back share-based compensation, as reported	659,919	290,740	56,458
Add back/(deduct) change in fair values of financial instruments, as reported	3,046	(11,900)	(2,151)
Add back amortization and depreciation, as reported	57,470	57,197	74,152
Add back/(deduct) change in expected credit losses, as reported	(1,993)	(4,804)	(8,636)
Add back finance costs, as reported	21,546	21,634	34,186
Add back/(deduct) change in fair value of derivative liability, as reported	(1,637,649)	519,301	322,381
Add back interest accretion, as reported	30,129	(1,047)	20,676
Add back loss on disposal of assets, as reported	-	-	1,301
Add back loss on related-party loan, as reported	-	219,379	-
Add back one-time processor penalty, as reported	-	200,000	-
Add back/(deduct) transaction costs, as reported	25,462	(3,759)	9,331
Adjusted EBITDA	(991,622)	(1,066,484)	100,773

*Quarterly amounts not reported in the Company's audited consolidated financial statements for the years ended December 31, 2021 and 2020, therefore Adjusted EBITDA must be calculated. Loss for the quarter may be found in the Company's Annual MD&A for the year ended December 31, 2021.

Q1 2022 revenue grew 79% or \$2.8M on a year-over-year basis vs. vs. Q1 2021, and gross margin dollars increased \$734,742 over the same period. Growth drivers include continued strong sales due to POSaBIT's contactless payment system and the continued increase in stores using POSaBIT for both Payments and Point of Sale. As discussed during the May 3, 2022, investor conference call, industry-wide headwinds impacted consumer demand, average order values, and overall transactional sales volume in Q1 2022. We saw this begin in late Q3 2021 and continue through the first two months of Q1 2022, with volumes finally rebounding to expected levels in March, 2022. Company revenue was also impacted by extended underwriting times associated with new clients adopting the Company's PIN debit payment solution, the preferred solution for large multi-state and super-state merchants. The underwriting time for PIN debit merchants takes longer than the Company's other payment services due to its more rigorous underwriting standards. Additionally, large enterprise size merchants can take even longer because they often have complex corporate structures. Despite signing up many new clients in the quarter, revenue was delayed because of underwriting delays. As a result, our Q1 2022 revenue was impacted, coming in generally flat (down 1%) relative to Q4 2021 revenue. However the Company still increased gross margin dollars over that period by \$151,614. Adjusted EBITDA was \$(991,622) for Q1 2022 versus \$100,773 in Q1 2021 and \$(1,066,484) in Q4 2021, respectively.

POSaBIT is confirming its initial revenue guidance for 2022 of \$37M to \$40.0, \$675M to \$730M in transactional sales from card services and gross profit dollars of \$9M to \$10M.

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.

There were no related party transactions involving the Company in Q1 2022.



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Included in operating expenses for the period ended March 31, 2021 are license fees paid to PlaceFull Inc., a company in which the CEO owned significant shareholdings. In December 2021, the CEO sold his ownership interest in Placeful, additionally the Company signed a new license for the use of Placefull's software, this agreement ended any further license payments between Placefull and POSaBIT.

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,	2022	2021
	\$	\$
Executive compensation to key managers	295,394	215,000
Licence fees to PlaceFull Inc.	-	30,000
Totals	295,394	245,000

Outstanding securities

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

Security	Number outstanding
Common shares	131,902,645
Options (exercisable – 10,998,253)	17,189,215
Restricted share units (RSU)	367,647
Warrants	6,256,962
Agent options	344,719
Total fully diluted capitalization	156,061,188

