POSaBIT Systems Corporation

Interim Management's Discussion and Analysis

Quarterly Highlights

Three months ended June 30, 2022

(reported in US Dollars)

August 25, 2022

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*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 August 25, 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 six months ended June 30, 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.

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 June 30, 2022, the Company has a reported working capital of $3,268,872 (December 31, 2021 **-** $1,691,273) and has a shareholders' deficiency $760,449 (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 August 24, 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 June 30, 2022, the Company had assets totaling $9,218,839 and shareholders' deficiency of $760,449. This compares with assets of $7,903,775 and shareholders' deficiency of $8,707,142, at December 31, 2021.

During the quarter ended June 30, 2022, the Company's net assets increased by $7,946,693, the result of a decrease in liabilities of $4,979,422, together with an increase in assets of $2,453,563. The decrease in liabilities was primarily driven by a non-cash decrease of $4.7 million in the fair value of the derivate liability, as noted below and in note 9.

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

(Reported in US Dollars)

Item	Change	Explanation of change
	$	
Cash	(1,488,829)	Cash used for operating activities of $1,719,656 less cash used for investing activities of $121,331 plus cash provided from financing activities of $3,826,126 less funds held in trust of $3,473,983.
Funds held in trust	3,473,983	Net proceeds from the completed financing (below in this MD&A and notes 4, 11.2.1 and 11.2.2).
Receivables and sales taxes recoverable	462,890	Receivables increased with corresponding increase in revenues.
Prepaid expenses and deposits	80,646	The increase is the result of normalized annual expenditures and the recording of monthly expenses.
Digital assets	(13,457)	Normal mark-to-market change together with sale of all digital assets.
Due from related parties	388	Details for key management disclosed in note 12 and in the *Transactions with related parties* section of this MD&A.
Inventories	(126,375)	Finished inventory decreased as the Company fulfilled orders with existing inventory.
Equipment	64,317	Approximately $120,000 of purchases offset by depreciation of approximately $56,000
Change in assets, increase	**2,453,563**	
Accounts payable and accrued liabilities	330,385	Decrease in payables due to normal operational variation in payment timing.
Government loan	22	The decrease is due to accretion for the quarter of $2,171 less payments made of $2,193.
Derivative liability	4,686,055	Change in fair value of the remaining derivative liability for the quarter. There were no conversions during the quarter.
Convertible notes	(37,040)	The change for the quarter is entirely due to interest accretion on the convertible notes.
Change in liabilities, increase	**4,979,422**	
Increase in net assets	**7,432,985**	

Results of operations

Selected financial results of operations are summarized below:

	3 months ended June 30,			
	2022	2021	Year-over-year change Favourable/(Unfavourable)	
	$	$	$	%
Revenue	**8,229,936**	4,958,332	3,271,604	66
Cost of sales	**(6,268,028)**	(3,642,734)	(2,625,294)	(72)
Gross margin	**1,961,908**	1,315,598	646,310	49

(Reported in US Dollars)

Operating expenses, excluding forex	**(3,190,507)**	(1,301,297)	(1,889,210)	(145)
Forex	**(2,743,539)**	206,858	(2,950,397)	(1,426)
	(3,972,138)	221,159	(4,193,297)	1,896
Other income (expense)	**4,351,992**	(1,099,394)	5,451,386	496
Income (loss)	**379,854**	(878,235)	1,258,089	143

POSaBIT's year over year growth continues to be strong. This is due to an increase in the number of locations served by POSaBIT payments and POSaBIT Point of sale solutions, as well as an increase in the gross dollar volume of transactions running through POSaBIT payment systems. This resulted in exceptional year over year revenue and gross margin dollar 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**			
	June 30, 2022	**March 31, 2022**	**Change Fav/(Unfav)**		**June 30, 2022**	**June 30, 2021**	**Change Fav/(Unfav)**	
	$	$	$	%	**$**	$	$	%
Revenue	**8,229,936**	6,359,733	1,870,203	30	**8,229,936**	4,958,332	3,271,604	66
Cost of goods sold	**(6,268,028)**	(4,832,766)	(1,435,262)	(30)	**(6,268,028)**	(3,642,734)	(2,625,294)	(72)
Gross margin (deficit)	**1,961,908**	1,526,967	434,941	29	**1,961,908**	1,315,598	646,310	49
Adjusted operating costs	**(2,622,604)**	(2,518,589)	(104,015)	(4)	**(2,622,604)**	(1,108,375)	(1,514,229)	(137)
Adjusted other costs (income)	**-**	-	-	-	**-**	-	-	-
Adjusted EBITDA	**(660,696)**	(991,622)	330,926	(33)	**(660,696)**	207,223	(867,919)	(418)

(Reported in US Dollars)

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

	June 30, 2022	March 31, 2022*	June 30, 2021
	$	$	$
Income (loss), as reported	**379,854**	(469,754)	(878,235)
Add-back/(deduct) foreign exchange gains, as reported	**2,743,539**	320,202	(206,858)
Add back share-based compensation, as reported	**511,604**	659,919	139,828
Add back change in fair values of financial instruments, as reported	**2,467**	3,046	1,843
Add back amortization and depreciation, as reported	**56,299**	57,470	53,094
Add back/(deduct) change in expected credit losses, as reported	**2,942**	(1,993)	7,406
Add back interest expense (exclusive of interest accretion), as reported	**22,816**	21,546	29,464
Add back interest accretion, as reported	**39,212**	30,129	22,183
Add back/(deduct) change in fair value of derivative liability, as reported	**(4,686,054)**	(1,637,649)	1,038,498
Add back loss on disposal of assets, as reported	**715**	-	-
Add back/(deduct) transaction costs, as reported	**265,910**	25,462	-
Adjusted EBITDA	**(660,696)**	(991,622)	207,223

*Refer to prior MD&A for the quarter ended March 31, 2022.

Revenue grew by 66% between Q2 2022 vs. Q2 2021 increasing by approximately $3.3M year-over-year, and gross margin dollars increased by 49% or $646,310 over the same period. Growth drivers included, onboarding new locations with one of POSaBIT's cashless payment offerings and the continued adoption by new merchants of POSaBIT's Point of Sale solution. Industry-wide headwinds, as well as overall economic conditions, continued to impact transactional sales volumes in the quarter, putting pressure on average order value per transaction across our merchant base which impacted overall total dollars processed. Despite these headwinds we saw a significant increase in Q2 2022, largely due to merchants processing pin debit transactions, where we recognize more revenue per transaction. Revenue in Q2 was approximately $8.2M, which reflects an increase of 30% or $1.9M relative to Q1 2022 revenue. The Company also saw an increase in gross margin dollars over the period to approximately $2.0M, an increase of 29% or $434,941 relative to Q1 2022. Gross Margin dollars didn't increase at the same percent increase as revenue due to the lower gross margin on a per transaction basis for Pin debit merchants compared to the Company's other payment solutions. Adjusted EBITDA was $(786,696) for Q2 2022 versus $207,223 in Q2 2021 and $(991,622) in Q1 2022, respectively.

POSaBIT is confirming its initial revenue guidance for 2022 of $37M to $40M and gross profit dollars of $9M to $10M. The Company has determined there is more value to be created by investing our profits in growing market share than reporting near-term marginal profitability.

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 was $1,330 advanced to a related party during Q2 2022. Related party loans are interest free with no fixed term of repayment. Included in operating expenses for the comparative quarter in 2021, are license fees paid to PlaceFull Inc., a company in which the CEO at that time owned significant shareholdings. In December 2021, the CEO sold his ownership interest in Placeful, and the Company signed a new license for the use of Placefull's software. This agreement ended any further license payments between Placefull and POSaBIT.

(Reported in US Dollars)

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 June 30,	**2022**	2021
	$	$
Executive compensation to key managers	**288,120**	245,500
Licence fees to PlaceFull Inc.	**-**	30,000
Totals	**288,120**	275,500

Outstanding securities

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

Security	**Number outstanding**
Common shares	138,364,649
Options (exercisable – 10,998,253)	18,444,215
Restricted share units (RSU)	728,922
Warrants	10,053,355
Agent options	344,719
Total fully-diluted capitalization	167,935,860

The Company has also issued convertible notes (note 9). As at the date of this MD&A, $815,000 of principal remains outstanding ("**Outstanding Convertible Debt**"). As the conversion price is set at C$0.12 per share, a variable number of shares will be issued on conversion since it is a function of the US to Canadian dollar exchange rate. If the Outstanding Convertible Debt was converted at the reporting date, using the reporting date exchange rate, a total of 8,751,741 additional common shares of the Company would have been issued and the total fully-diluted capitalization would be 176,687,601.