



# **POSaBIT Systems Corporation**

**Interim Management's Discussion and Analysis**

**Quarterly Highlights**

**Three months ended September 30, 2022**

**(reported in US Dollars)**

**November 29, 2022**

# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 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 November 29, 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 September 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](http://www.sedar.com) or on the Company’s website at [www.posabit.com](http://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 September 30, 2022**  
**(Reported in US Dollars)**

---

**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 124<sup>th</sup> 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 will be dependent upon generating revenues sufficient to cover its operating costs and may be dependent upon additional financings. The Company has generally 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 September 30, 2022, the Company has a reported working capital of \$2,755,585 (December 31, 2021 - \$1,691,273) and has a shareholders' deficiency of \$2,366,566 (December 31, 2021 – \$8,707,142). These factors indicate the existence of uncertainty that may cast doubt as to the Company's ability to continue as a going concern. 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 November 28, 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 September 30, 2022, the Company had assets totaling \$12,628,608 and shareholders' deficiency of \$2,366,566. This compares with assets of \$7,903,775 and shareholders' deficiency of \$8,707,142, at December 31, 2021.

During the quarter ended September 30, 2022, the Company's net assets decreased by \$1,606,117, the result of an increase in assets of \$3,409,769 offset by an increase in liabilities of \$5,015,886. The increase in liabilities was primarily driven by a non-cash increase of \$1,018,755 in the fair value of the derivate liability, as noted below and in note 9, together with an increase in deferred revenue of approximately \$3.6 million (note 8).

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



# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 2022 (Reported in US Dollars)

Item	Change	Explanation of change
		\$
Cash	6,413,993	Cash provided from operating activities of \$3,003,933 supplemented with cash provided from financing activities of \$3,478,079 less cash used for investing activities of \$68,019.
Receivables and sales taxes recoverable	549,837	Receivables increased with increased revenues and normal operating customer payment terms.
Prepaid expenses and deposits	83,481	The increase is the result of normalized annual expenditures and the recording of monthly expenses.
Due from related parties	(1,330)	Details for key management disclosed in note 12 and in the <i>Transactions with related parties</i> section of this MD&A.
Inventories	(117,190)	Finished inventory decreased as the Company fulfilled orders with existing inventory.
Equipment	(45,039)	Approximately \$68,000 of purchases offset by depreciation of approximately \$52,000 plus equipment sold at a loss of \$61,000.
<b>Change in assets, increase</b>	<b>3,409,769</b>	
Accounts payable and accrued liabilities	(307,200)	Increase in payables due to normal operational variation in payment timing.
Deferred revenue	(3,640,896)	See note 8.
Derivative liability	(1,018,755)	Change in fair value of the remaining derivative liability for the quarter. There were no conversions during the quarter.
Convertible notes	(49,035)	The increase for the quarter is entirely due to interest accretion on the convertible notes.
<b>Change in liabilities, increase</b>	<b>(5,015,886)</b>	
<b>Decrease in net assets</b>	<b>(1,606,117)</b>	

### Results of operations

Selected financial results of operations are summarized below:

September 30,	3 months ended			
	2022	2021	Year-over-year change	
	\$	\$	\$	%
Revenue	10,330,937	6,363,578	3,967,359	62
Cost of sales	(7,436,410)	(4,935,039)	(2,501,371)	(51)
<b>Gross margin</b>	<b>2,894,527</b>	1,428,539	1,465,988	103
Operating expenses, excluding forex	(3,754,118)	(2,205,099)	(1,549,019)	(70)
Forex	866,885	1,893,525	(1,026,640)	(54)
	<b>7,294</b>	1,116,965	(1,109,671)	(99)



# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 2022 (Reported in US Dollars)

Other income (expense)	(1,231,614)	(8,020,940)	6,789,326	85
<b>Income (loss)</b>	<b>(1,224,320)</b>	<b>(6,903,975)</b>	<b>5,679,655</b>	<b>82</b>

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			
	September 30, 2022	June 30, 2022	Change Fav/(Unfav)		September 30, 2022	September 30, 2021	Change Fav/(Unfav)	
	\$	\$	\$	%	\$	\$	\$	%
Revenue	10,330,937	8,229,936	2,101,001	26	10,330,937	6,363,578	3,927,359	62
Cost of goods sold	(7,436,410)	(6,268,028)	(1,168,382)	(19)	(7,436,410)	(4,935,039)	(2,501,371)	(51)
Gross margin (deficit)	2,894,527	1,961,908	932,619	48	2,898,527	1,428,539	1,465,988	103
Adjusted operating costs	(3,184,892)	(2,622,604)	(562,288)	(21)	(3,184,892)	(1,867,730)	(1,317,162)	(71)
<b>Adjusted EBITDA</b>	<b>(290,365)</b>	<b>(660,696)</b>	<b>370,331</b>	<b>56</b>	<b>(290,365)</b>	<b>(439,191)</b>	<b>148,826</b>	<b>34</b>

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

	September 30, 2022	June 30, 2022*	September 30, 2021
	\$	\$	\$
Income (loss), as reported	(1,224,320)	379,854	(6,903,975)
Add-back/(deduct) foreign exchange gains, as reported	(866,885)	2,743,539	(1,893,525)
Add back share-based compensation, as reported	517,937	511,604	276,766
Add back change in fair values of financial instruments as reported	-	2,467	(424)
Add back amortization and depreciation, as reported	51,289	56,299	60,603
Add back change in expected credit losses, as reported	33,575	2,942	5,725
Add back loss on discontinued operations	-	-	112,500
Add back interest expense (exclusive of interest accretion), as reported	19,827	22,816	23,302
Add back interest accretion, as reported	51,228	39,212	23,339
Add back/(deduct) change in fair value of derivative liability, as reported	1,018,756	(4,686,054)	7,856,498
Add back loss on disposal of assets, as reported	61,769	715	-
Add back transaction costs, as reported	46,459	265,910	-



# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 2022 (Reported in US Dollars)

	September 30, 2022	June 30, 2022*	September 30, 2021
	\$	\$	\$
<b>Adjusted EBITDA</b>	<b>(290,365)</b>	<b>(660,696)</b>	<b>(439,191)</b>

\*Refer to prior MD&A for the quarter ended June 30, 2022.

Revenue grew year-over-year, Q3 2022 vs Q3 2021, by 62% and gross margin dollars increased even faster, by 103% over the same period. Growth drivers included, onboarding new locations with POSaBIT's cashless payment offerings and the continued adoption by new merchants of POSaBIT's Point of Sale solution. Industry-wide headwinds continued to impact transactional sales volumes in the quarter, putting pressure on average order value per transaction across our merchant base. Despite these headwinds we saw a significant increase in Q3 2022, in part due to more merchants onboarding directly to our pin debit processing solution, which is a lower gross margin dollar solution but with higher revenue per transaction, when compared to our other payment offerings. Revenue in Q3 2022 was approximately \$10.3M, which reflects an increase of 26% or \$2.1M sequentially relative to Q2 2022. The Company also saw an increase in gross margin dollars over the period to approximately \$2.9M, an increase of 48% or \$932,619, relative to Q2 2022. Gross Margin dollars increased faster than revenue due to the point-of-sale licensing agreement. Adjusted EBITDA was \$(290,365) for Q3 2022 versus \$(439,191) in Q3 2021 and \$(660,696) in Q2 2022.

POSaBIT is reconfirming its revenue guidance for 2022 of \$37M to \$40M and increasing its gross margin dollar guidance from \$9.5M to \$10M to \$9.5 to \$10.5M, an increase of \$0.5M at the top end of the range.

### ***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 repaid to a related party during Q3 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 PlaceFull, 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.

### **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:

<b>3 months ended September 30,</b>	<b>2022</b>	<b>2021</b>
	\$	\$
Executive compensation to key managers	<b>371,268</b>	284,602
Licence fees to PlaceFull Inc.	-	30,000



**POSaBIT Systems Corporation**  
**INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**QUARTERLY HIGHLIGHTS**  
**Three months ended September 30, 2022**  
(Reported in US Dollars)

---

Totals	<b>371,268</b>	314,602
--------	----------------	---------

---

***Outstanding securities***

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

<b>Security</b>	<b>Number outstanding</b>
Common shares	139,625,236
Options (exercisable – 11,266,512)	17,609,840
Restricted stock units	1,028,922
Warrants	9,971,862
Total fully-diluted capitalization	168,235,860

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 of 1.3707, a total of 9,309,337 additional common shares of the Company would have been issued and the total fully-diluted capitalization would be 177,545,197.

