POSaBIT Systems Corporation

Management's Discussion and Analysis

Year ended December 31, 2022

(Expressed in United States dollars)

April 27, 2023

*This management discussion and analysis ("**MD&A**") has been prepared based on information available to POSaBIT Systems Corporation ("**POSaBIT**" or the "**Company**") as of April 27, 2023. This MD&A is based on information available to POSaBIT and updates disclosure previously provided in the Company's Annual MD&A, up to the date of this MD&A and should be read in conjunction with the Company's audited consolidated financial statements and the related notes as at and for the years ended December 31, 2022 and 2021 (the "**Consolidated Financial Statements**"). The Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("**IFRS**") and all amounts are expressed in United States dollars unless otherwise noted. Other information contained in this MD&A has also been prepared by management and is consistent with the data contained in the Consolidated Financial Statements. Additional information relating to the Company can be found on the Company's website at www.posabit.com.*

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company and management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures (**"DC&P"**) and/or internal control over financial reporting (**"ICFR"**), nor has it completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

This document contains "forward-looking statements", which may include, but are not limited to, statements with respect to the future financial or operating performance of POSaBIT or future events related to POSaBIT, which reflect expectations regarding growth, results of operations, performance, business prospects or opportunities or industry performance or trends. These forward-looking statements reflect POSaBIT's current internal projections, expectations or beliefs and are based on information currently available to POSaBIT. Often, but not always, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "intend", "plan", "anticipate", "believe", "predict", "potential", "continue", "budget", "schedule", "estimate", "forecast" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward- looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements expressed or implied by the forward-looking statements to differ materially from those anticipated in such statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; changes in labour costs and other costs of materials, equipment or processes to operate as anticipated; the ability to attract and retain qualified personnel; market competition; governmental regulation and approvals; and the factors discussed in the ***Other risks and uncertainties*** section of this MD&A. Although POSaBIT has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and, unless otherwise required by applicable securities laws, POSaBIT disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

General

POSaBIT Systems Corporation ("**POSaBIT**" or the "**Company**"), was incorporated 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 its business now primarily involves point-of-sale arrangements designed to offer merchants and consumers an easy way to sell and purchase goods and services. Pursuant to the Transaction, the shareholders 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 Candaian Securities Exchange ("**CSE**") under the trading symbol "**PBIT**".

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

The Company's head office is located at 11915 124th Avenue NE, Kirkland, Washington 98034. Its registered address in Canada is 77 King Street West, Suite 400, Toronto, Ontario, M5K 0A1.

The Consolidated Financial Statements were authorized for issuance by the Board of Directors of the Company on April 27, 2023.

The Company's newly-adopted standards and its accounting policies are detailed in notes 3 and 4, respectively, of the Consolidated Financial Statements.

Principal Business and Stated Business Objectives

POSaBIT is a financial infrastructure provider to the Cannabis and CBD sectors. POSaBIT offers point of sale software as a service (**"POS Services")** and cashless payment solutions **("Payments Services"**).

POSaBIT POS is the cornerstone product of the Company. It tracks all sales in accordance with state requirements, integrates full customer history and preferences, and offers fully integrated pin debit and ACH payment options.

POSaBIT Payments Services allows merchants to provide a compliant, normalized retail experience to their customers who wish to pay for products other than with cash.

Target projected revenue streams

POSaBIT has 2 main revenue streams: Payment Services and POS Services. POSaBIT Payments Services generate revenue via setup costs, hardware costs, transaction fees and non-cash adjustment fees. POSaBIT POS generates revenue through a traditional software-as-a-service subscription model (pay per terminal/console on a monthly, or yearly basis) as well as through the licensing of its proprietary software, for which it collects royalties and support services fees.

1.1 Payment Services

Payment Services revenue is comprised of the following components:

Non-cash adjustment fees - Charges to the end consumer for each transaction that is not at the discounted cash price.

(Expressed in United States dollars)

Transaction fees - Each debit charge to the merchant is variable based on a contracted percent of transaction fee, paid by merchant. In addition, the Company charges a "per swipe" fee paid by the merchant.

Set-up fees - Installation fees to each merchant.

Rental fees - Fees charged to merchants for the rental of hardware.

1.2 POS Services

POS Services revenues is comprised of the components:

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 size and nature of the merchant installation.

Set-up fees - Installation fees per location.

Rental fees - Fees charged to merchants for the rental of hardware.

Hardware - Fees charged to merchants for the cost of the hardware.

***License fees* -** License fees per licensing agreement.

Support services – Fees charged for stand and deliver support over term of licensing agreement.

In 2022, the Company entered into a multi-year software license agreement ("License Agreement") with a large *Cannabis* technology company ("**Licensee**"). Pursuant to the License Agreement, the Licensee will make the following payments to the Company:

	Payment Timing	Amount
		$
Signing fee	On signing	300,000
Support fee	On signing	200,000
Year 1 license fee	On signing	3,900,000
Year 2 license fee	Monthly, commencing on August 31, 2023	4,650,000
Year 3 license fee	Monthly, commencing on August 31, 2024	5,400,000
Year 4 license fee	Monthly, commencing on August 31, 2025	6,150,000
		20,600,000

The Company determined, based on the nature of the license and an analysis of its performance obligations, that the licensing component represents a right of use arrangement. Accordingly, pursuant to IFRS 15, the Company determined that $14,548,750 of the total transaction price is recognized at inception with the remaining $6,180,000 recognized over the life of the agreement.

The arrangement includes a significant financing component as a result of the extended payment terms and determined the present value of the future payments using the discount rate at inception of 2.8%, resulting in a contract asset of $10,792,500. The discount amount of $826,906 will be accreted to interest income over the term of the agreement.

(Expressed in United States dollars)

Financial position

As of December 31, 2022, the Company had assets totaling $17,996,374 and shareholders' equity of $8,627,738. This compares with assets of $7,903,775 and shareholders' deficiency of $8,707,142, as of December 31, 2021.

During the year ended December 31, 2022, the Company's net assets increased by $10,993,099, the result of an increase in assets of $5,368,266 supplemented by a decrease in liabilities of $6,837,065.

The significant changes in the Company's net assets are detailed as follows:

Item	Change	Explanation of change
	$	
Cash	(1,342,548)	Cash provided from financing activities of $2,518,614 less cash used for operations of $3,530,493 less cash used for investing activities of $330,669.
Receivables and sales taxes recoverable	415,151	Receivables increased with normal transaction volume increases.
Prepaid expenses and deposits	403,871	The increase mainly due to administrative and insurance costs (see note 7).
Digital assets	(16,502)	The Company disposed of all of its digital assets.
Current portion of contract asset	780,000	See note 10.
Inventory	(214,787)	The Company provided for obsolete inventory.
Equipment	10,685	Approximately $48,000 of purchases offset by depreciation of approximately $37,000 and sales of approximately $1,000.
Revenue-generating equipment	44,729	Approximately $283,000 of purchases offset by depreciation of approximately $176,000 and sales of approximately $62,000.
Non-current portion of contract asset	10,012,500	See note 10.
Accounts payable and accrued liabilities	3,413,733	Decrease in payables and accruals is due to normal operational variation in payment timing.
Income taxes payable	(404,134)	Increase in payable as a result of taxable income in current year
SBA loan	64	Decrease reflects current year interest accretion of $8,708 less repayments of $8,772.
Derivative liability	4,006,369	Change in fair value of derivative liability.
Convertible note	(178,967)	Interest accretion for the year.
	16,930,164	

(Expressed in United States dollars)

Operations

At December 31, 2022, the Company had 47 full-time employees, 3 full-time contractors and operates in 21 states. Product development efforts focused on incremental feature enhancements to payment services as well as certifying the POSaBIT point-of-sale platform in states that have recently approved cannabis retail sales.

Selected annual financial information

	December 31, 2022	December 31, 2021	December 31, 2020
	$	$	$
Consolidated statements of earnings (loss)			
Revenue	**49,772,117**	21,301,749	7,822,732
Gross margin	**22,565,697**	5,614,122*	1,735,064
Total operating expenses	**(17,410,868)**	(5,743,603)*	(2,630,097)
Other income (expenses)	**3,312,909**	(10,436,226)*	(252,588)
Loss from discontinued operations*	**-**	-	(103,681)
Earnings (loss) prior to income taxes	**8,467,738**	(10,565,707)	(1,147,621)
Earnings (loss)	**8,063,603**	(10,565,707)	(1,147,621)
Consolidated statements of cash flow			
Cash provided from (used for) operations	**5,096,926**	(2,189,595)	(129,868)
Cash used for investing activities	**(330,669)**	(272,487)	(175,932)
Cash provided from financing activities	**(6,108,805)**	5,903,252	889,010
Increase (decrease) in cash	**(1,342,548)**	3,447,411	573,210
Consolidated statements of financial position			
Cash	**3,076,240**	4,418,788	977,654
Total assets	**17,996,874**	7,903,775	3,685,719
Total liabilities	**(9,773,852)**	(16,610,918)	(6,742,702)
Shareholders' equity (deficiency)	**8,223,022**	(8,707,143)	(3,056,938)

**Restated to match current reporting. See note 2.4. Net income as previously-reported, is not affected*

	December 31, 2022	December 31, 2021	December 31, 2020
	$	$	$
Earnings per share			
Basic earnings (loss) per common share	**0.06**	(0.09)	(0.01)
Diluted net earnings (loss) per common share	**0.06**	(0.09)	(0.09)
	#	#	#
Weighted average common shares outstanding	**135,434,137**	116,346,410	96,633,022
Diluted weighted average common shares outstanding	**145,025,696**	116,346,410	96,633,022

(Expressed in United States dollars)

Summary of quarterly results

	4th Quarter 2022	3rd Quarter 2022	2nd Quarter 2022	1st Quarter 2022
	$	$	$	$
Revenues	24,851,511	10,330,937	8,229,936	6,359,733
Gross margin	16,182,295	2,894,527	1,961,908	1,526,967
Total operating expenses	(5,033,409)	(2,887,233)	(5,934,046)	(3,556,180)
Other (expenses) income	(1,366,928)	(1,231,614)	4,351,992	1,559,459
Net earnings (loss) prior to income taxes	9,781,958	(1,224,320)	379,854	(469,754)
Net earnings (loss)	9,377,823	(1,224,320)	379,854	(469,754)
Basic earnings (loss) per common share	0.07	(0.01)	0.00	(0.00)
Diluted net earnings (loss) per common share	0.06	(0.01)	0.00	(0.00)
Total assets	17,996,874	12,628,608	9,218,839	6,765,327
Total liabilities	(9,773,852)	(14,995,174)	(9,979,288)	(14,964,951)
Shareholders' equity (deficiency)	8,223,022	(2,366,566)	(760,449)	(8,199,624)
Cash dividends declared per common share	-	-	-	-

	4th Quarter 2021	3rd Quarter 2021	2nd Quarter 2021	1st Quarter 2021
	$	$	$	$
Total revenues	6,432,497	6,364,107	4,958,332	3,546,343
Gross margin (loss)	1,482,844	1,429,068	1,315,600	899,716
Total operating expenses	(2,813,991)	(311,569)	(1,094,438)	(1,046,041)
Other expenses (income)	(938,804)	(8,020,940)	(1,099,394)	(367,757)
Loss prior to income tax	(2,269,951)	(6,903,441)	(878,232)	(514,082)
Loss	(2,269,951)	(6,903,441)	(878,232)	(514,082)
Basic loss per common share	(0.02)	(0.06)	(0.01)	(0.01)
Diluted loss per common share[1]	(0.02)	(0.06)	(0.01)	(0.01)
Total assets	7,903,775	9,149,137	8,332,742	7,492,501
Total liabilities	(16,610,918)	(16,359,389)	(9,826,933)	(8,834,285)
Shareholders' deficiency	(8,707,143)	(7,210,252)	(1,494,191)	(1,341,782)
Cash dividends declared per common share	-	-	-	-

[1]Inclusion of outstanding warrants and options is anti-dilutive.

Results of operations

POSaBIT experienced exceptional growth in 2022 due to an increase in the number of stores that use POSaBIT for cash less payments as well as an overall increase in cannabis consumption in the US. This has had a significant impact on POSaBIT's year over year revenue growth and positive gross margin dollars. Additionally, the company continued its focus on positioning itself for a minimal EBITDA loss in 2023 through diligent management of its operational costs. see *Other selected financial information* of this MD&A .

Year ended December 31, 2022 and December 31, 2021

POSaBIT incurred earnings during 2022 and losses during 2021. Income from operations for the year was $8,467,738 (2021 – loss of $10,565,707) or $0.06 (2021 - $(0.09)) per share.

Revenues of $49,772,117 *(2021 - $21,301,749)*

The increase of approximately $28,470,368 over 2021 is due to an increase in POS services of $15,522,124 which included licensing revenue of $15,044,357 (note 10) and an increase in the volume of cashless payment transactions, which resulted in greater payment services revenues of approximately $12,948,000. This increase was supplemented with hardware installations and License Fees, resulting in higher POS services revenues of approximately $1,102,124.

Cost of sales of $27,206,420 *(2021 - $15,687,627 (note 2.4))*

Processing Fees of $23,603,652 (2021 - $13,436,872)

The increase of approximately $10,167,000 over 2021 is attributable to the increased volume of processing transactions.

Software License Fees of $313,597 (2021 - $171,961)

The increase of approximately $142,000 from 2021 is result of increasing overall scale of the operations within our data center (Amazon) as well as new software tools required for development.

Inventory impairment of $137,097 (2021 - $104,693)

The increase of approximately $32,000 from 2021 is due to monthly reconciliation of Inventory quantities and obsolescence.

Hardware cost of sales of $749,301 (2021 - $397,602 (note 2.4))

The increase of approximately $351,700 from 2021 is due to an increase in new customers using POSaBIT for point of sale and payment services.

Sales labor and commissions of $2,402,773 (2021- $1,576,499)

The increase of approximately $826,000 over 2021 is attributable to the increased volume of transactions and compensation thereon.

Operating expenses of $17,410,868 *(2021 - $5,743,603 (note 2.4))*

Administrative of $9,903,766 (2021 - $5,601,560). Broken down below.
General of $1,284,229 (2021 - $1,145,453)

The increase of approximately $139,000 over 2021 is mainly attributable to increases in office costs $213,000, chargebacks $20,000, offset by a reduction in recruiting costs $94,000.

Meals and entertainment of $81,099 (2021 - $65,014)

The increase of approximately $16,000 over 2021 is due to increase sales activity for new accounts.

Salaries and wages of $7,5471,620 (2021 - $3,916,068)

The increase of approximately $3,626,000 over 2021 is the result of increased development salaries of approximately $570,000, finance salaries of approximately $900,000, marketing, sales and customer success salaries of approximately $1,460,000, product development salaries of approximately $325,000 and payroll burden of approximately $502,000 offset by reductions in management salaries of $131,000

Sales taxes of $710,824 (2021 - $375,064)

The increase of approximately $336,000 over 2021 is due to increased city and state taxes of approximately $334,000 together with increased hardware sales taxes of approximately $2,000.

Travel of $285,994 (2021 - $99,**961)**

The increase of approximately $186,000 over 2021 is due to increase sales activity new accounts.

Amortization and depreciation of $36,647 (2021 - $99,971 (note 2.4))

The decrease of approximately $63,000 from 2021 is the result of decreased depreciation of equipment of approximately $26,000, a reduction (to $nil) of depreciation on right-of-use assets of $17,000 together with a reduction (to $nil) of amortization on intangible property of $20,000.

Marketing of $337,232 (2021 - $268,190)

The increase of approximately $69,000 over 2021 is due primarily to an increase in attendance at conferences This increases was partially offset by decreases in general marketing costs and professional fees tied to marketing.

Share-based compensation of $2,229,402 (2021 - $763,792)

The increase of approximately $1,466,000 over 2021 is the result of a greater number of options and RSUs granted during 2022 together with the carry-forward effect of increased vesting over prior years.

Other income (expenses) of $3,312,909 *(2021 - $(10,436,226))*

Change in fair value of digital assets of $(5,513) (2021 – $12,632)

The change of approximately $18,000 over 2021 is the result of mark-to-marketing of the digital assets. As of December 21, 2022, the Company no longer owned any digital assets.

Change in expected credit losses of $20,697 (2021 – $309)

The change of approximately $20,000 over 2021 reflects the Company's estimate of credit losses due to credit risk of the underlying aged accounts receivable balances.

Finance Costs of $275,042 (2021 – $173,737)

The increase of approximately $101,000 over 2021 is the result increase non-cash interest accretion on the convertible loan (note 14) and the government loan (note 13) of $123,000 offset by decreased cash interest payments of $18,000 and lower interest earned of $4,000.

Change in fair value of derivative liabilities of $4,006,369 (2021 - $9,736,678)

The change of approximately $13,743,000 from 2021 is due to the mark-to-market of the derivative liability regarding the convertible notes.

Loss on disposal of assets of $62,484 (2021 - $1,301)

The increase of approximately $61,000 from 2021 is due increase disposal of office equipment.

Loss on related party loan of $nil (2021 - $219,379)

The decrease of approximately $219,000 from 2021 is due to the write-off of a loan to Placeful Inc. The Company no longer has any economic activity with Placeful Inc.

One-time processor fees of $nil (2021 - $200,000)

The decrease of $200,000 is entirely related to fees paid to a former processor for a one-time reimbursement of a processor fine in 2021.

Transaction costs of $519,261 (2021 - $118,072)

The increase of approximately $401,000 is due to software integration of approximately $187,000, legal fees of approximately $224,000 offset by non-cash transaction costs of approximately $10,000.

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.

The Company notes that Adjusted EBITDA for the fourth quarter and year-end 2022 reflects the recognition of $ $15,044,357 in revenue for the multi-year right of use license granted under the License Agreement executed in 2022 (see above under ***License Fees*** and note 18 to the Financial Statements).

(Expressed in United States dollars)

	3 months ended December 31,				Year ended December 31,			
	2022	2021	Change Fav/(Unfav)		2022	2021 *(note 2.4)*	Change Fav/(Unfav)	
	$	$	$	%	$	$	$	%
Revenue	**24,851,511**	6,433,497	18,418,015	286	**49,772,117**	21,301,749	28,470,368	134
Cost of goods sold	**(8,669,216)**	(5,119,553)	(3,549,663)	(69)	**(27,206,420)**	(15,687,627)	(11,518,793)	73
Gross margin (deficit)	**16,182,295**	1,313,943	14,868,352	1,132	**22,565,697**	5,614,122	16,951,575	302
Adjusted operating costs	**(4,027,885)**	(2,224,671)	(1,803,214)	(81)	**(12,353,970)**	(6,956,341)	(5,397,629)	78
Adjusted other costs (income)	**148,143**	-	148,143	-	**148,143**	-	148,143	-
Adjusted EBITDA	**12,302,553**	(910,728)	13,213,281	1,451	**10,359,870**	(1,342,219)	11,702,089	872

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

Year ended	**December 31, 2022**	December 31, 2021
	$	$
Income (loss), as reported	**8,467,738**	(10,565,707)
Add back depreciation and amortization, as reported	**36,647**	99,971*
Add back share-based compensation, as reported	**2,229,402**	763,792
Deduct foreign exchange gains, as reported	**2,790,849**	(2,076,501)
Deduct (add back) change in fair values of financial instruments as reported	**5,513**	(12,632)
Deduct (add back) change in expected credit losses, as reported	**(20,697)**	(309)
Add back change in fair value of derivative liability, as reported	**(4,006,369)**	9,736,678
Add back finance costs, as reported	**275,042**	173,737
Add back loss on related party-loan, as reported	**-**	219,379
Add back loss on disposal of assets, as reported	**62,484**	1,301
Add back one-time processor penalty, as reported	**-**	200,000
Add back transaction costs, as reported	**519,261**	118,072
Adjusted EBITDA	**10,359,870**	(1,342,219)

*Adjusted to conform with current year reporting categories (note 2.4).

Corporate and financings

Year ended December 31, 2022

Unit financing –

In June 2022, 5,861,941 units were issued raising $3,665,740 ($C4,689,553). Each unit consists of 1 common share and 0.75 common share purchase warrant (each whole warrant, a "**Warrant**"). Each Warrant is exercisable into one common share at C$1.00 for existing shareholders that participated and C$1.05 for any new shareholder participation, for a period of 3 years after issuance.

Exercises –

During 2022, 834,375 options, 871,708 warrants and 344,719 finder warrants were exercised, raising proceeds of $246,727.

Subsequent to the reporting date

Private placement

In January 2023, the Company completed a private placement consisting of 4,533,333 units (each a "**Unit**"), raising gross proceeds of $3,000,000. Each Unit consists of 1 common share and 0.95 warrants (each full warrant, a "**Warrant**"). A total of 4,306,666 Warrants were issued, with each Warrant exercisable for 3 years at a price of C$1.25.

Warrant exercises

In January 2023, 105,238 warrants were exercised, raising proceeds of $14,996.

In February 2023, 81,494 warrants were exercise, raising proceeds of $7,256.

Conversion

In January 2023, $25,000 of the Convertible Notes were converted and 279,687 common shares were issued.

Termination Notice Under Acquisition Agreement

On January 27, 2023, the Company signed a securities purchase agreement with Akerna Corp for all the outstanding securities of Akerna Ample Exchange Inc and MJ Freeway. LLC. Prior to close of the transaction, on April 5, 2023, the Company received notice from Akerna Corp that they believed an offer received from another buyer was likely to result in a superior offer and was thus terminating the Company's securities purchase agreement.

Acquisition

On April 3, 2023, the Company announced it had acquired certain assets from Hypur Inc., effective April 1, 2023, in a cash and equity transaction, valued at up to $7.5 million.

Credit facility

In March 2023, the Company entered into a credit agreement whereby it may drawdown up to $8 million. Interest on the drawdowns is 10% from the date of drawdown until the second anniversary after closing and 12% thereafter. In March 2023, the Company made an initial drawdown of $3 million. The agreement expires on the third anniversary of the closing date.

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.

(Expressed in United States dollars)

Included in operating expenses in the year ended December 31, 2021 are license fees of $101,000, paid to PlaceFull Inc., ("**Placefull**") a company in which the CEO owned significant shareholdings. In December 2021, the Company amended the Master Reseller Agreement with Placefull (the "**Amendment**"). The Amendment provided that no further royalty payments would be due by the Company to Placefull. The consideration provided by the Company to Placefull for this amendment was the forgiveness of the Placefull Loan. The Company no longer has any ongoing economic activity with Placefull. and the CEO of the Company no longer has any ownership or economic interest in Placefull. As a result, for 2022, Placefull is not a related party of the Company.

Key management compensation

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the directors, named executive officers, being the Chief Executive Officer and the Chief Financial Officer. Others include the Company's Chief Technology Officer and its Chief Revenue Officer.

Related-party compensation paid or payable to key management is detailed below:

	Year ended December 31	
	2022	2021
	$	$
Executive compensation to key managers	**1,417,408**	997,602
Share-based compensation to key managers	**757,688**	495,353
Licence Fees to PlaceFull Inc.	**-**	101,000
Totals	**2,175,096**	1,593,955

Financial risk management

Financial instruments measured at fair value are classified into one of levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities; and
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

At December 31, 2022, the Company's financial instruments consist of cash, receivables, license contract, accounts payable and derivative liabilities. The fair values of cash, accounts receivable and accounts payable approximate their carrying values due to the relatively short-term to maturity.

Financial instrument risk factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest-rate risk, capital management risk and foreign exchange 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.

As of December 31, 2022, $2,745,121 (2021 – $2,331,519) 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 December 31, 2022 the Company has evaluated its receivables due from its processors and determined the lifetime expected credit losses for all but one, are nominal. For one processor, the Company is party to a lawsuit (note 22.2) but cannot reasonably estimate the outcome or the financial implications of that outcome.

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 has no liquidity risk as at December 31, 2022.

c) Interest rate risk

The Company is subject to interest rate risk on future cash flows as the convertible notes bear a fixed rate of interest.

d) Capital management risk

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' deficiency as capital.

To maintain or adjust the capital structure, the Company may issue new shares to the shareholders, draw upon existing credit facilities or sell assets. There are no changes in the Company's capital management policies for the years ended December 31, 2022 and 2021. There are no external capital management requirements or covenants as at December 31, 2022 and December 31, 2021, other than those imposed through ongoing listing requirements of the CSE.

e) Foreign exchange risk

The Company's operations are mainly completed in US dollars. However, the Company is a Canadian public company and therefore has transactions denominated in the Canadian dollar. As well, it has raised capital in Canadian dollars. As such, the Company is susceptible to changes in foreign exchange rates, mainly for translation of Canadian-dollar denominated borrowings, derivative liabilities, trade payables and operating expenses.

Other risks and uncertainties

Regulatory Risks

In the comparative period, POSaBIT operated a payment service that used Cryptocurrency for the purchase of cannabis in states where it was legal. Cryptocurrency regulation is relatively new and evolving, and POSaBIT's ability to continue to use the system was dependent on a regulatory environment supporting its use. In Washington state where POSaBIT is based, the sale of Cryptocurrency is deemed money transmission, as such, POSaBIT was licensed as a Money Transmission business in the state. POSaBIT's Money Transfer License ("MTL") is granted via the Washington State Department of Financial Institutions ("DFI") and POSaBIT is obligated to perform annual audits by the DFI to maintain the MTL license. POSaBIT business could have failed during that time if it had been unable to maintain its Money Services Business ("MSB") registration or MTL license in the states that require this.

POSaBIT was originally established to process cryptocurrency payment transactions on the POSaBIT merchant platform. In 2021, POSaBIT discounted its Cryptocurrency business. General risks that were associated with POSaBIT when it operated its Cryptocurrency business included:

- Regulation (State or Federal) that limits the ability to continue acceptance of cryptocurrency payments income or all of the applications in which it is accepted and used by the Company
- Rapidly changing exchange rates and price volatility that could result in loss on Bitcoin/Litecoin to dollar exchange transactions
- Fraud that impacts the Company's receipts at the merchant, processor or exchange level
- The emergence of available alternative payment processing systems that reduce or eliminate the Company's revenues associated with its cryptocurrency payment processing system

If the use of cryptocurrency processing was curtailed or restricted, or an alternative processing system making the use of Litecoin less profitable, POSaBIT risked not being able to achieve its projected growth and its earning prospects would have been diminished.

Market risk

The POS equipment and services business is highly competitive, with a substantial number of large and well-entrenched competitors. We have current and potential competitors in merchant processing, almost all of which have considerably greater financial and other resources than we do. We expect new entrants to obtain licensing and directly compete with us in merchant processing. In addition, changes in the regulatory and technological environment are bringing about a global consolidation of financial services, a proliferation of competitors, and convergence among various forms of media. As a result, our profitability could face increased pressure from competition and developments of existing providers, consolidation of our customers, increased competition from new entrants and deployment of new technologies. If we are unable to respond effectively to any increased competitive pressure arising from the above factors, our revenues and results of operation could be adversely affected. Further, if our services are successful, others will enter the market, which may draw our customers away from us or preclude us from obtaining any additional customers.

Other risk factors

Novel Coronavirus ("COVID-19")

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact a widespread global outbreak of a contagious disease, will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

Key personnel

The success of the Company for the foreseeable future will depend largely upon the ability of its management team and other key personnel, including but not limited to Ryan Hamlin, President and Chief Executive Officer. The loss of any one of these individuals could have a material adverse effect on the Company's business, and the Company would need to devote substantial resources to finding replacements. The Company currently does not carry "key-man" life insurance policies covering any of these officers. Competition for qualified and experienced personnel in the technology field is generally intense, and the Company will rely heavily on its ability to attract and retain qualified personnel in order to successfully implement its business objectives. The failure to attract or retain key executives and personnel could impact the Company's operations.

Dependencies

POSaBIT may have our processing limits reduced or have our pin debit card processing completely shut off because it provides services in the controversial area of legal cannabis sales and certain pin debit card companies and processors may elect (for no reason) to terminate services in either of these areas, and any such termination would have a materially negative impact on POSaBIT's business.

POSaBIT has established positive relationships with its local bank, as well as its processor and sponsor banks, that allow it to accept pin debit cards as a form of payment. The most difficult and complex relationship is with the sponsor and acquiring banks because POSaBIT will be operating a business that is considered high risk by the debit card companies. Though POSaBIT will look to build and maintain strong relationships with multiple providers in an effort to maintain its operations, there is no guarantee that it will be able to do so. Termination or limitations of services allowing our processing would have a materially negative impact on POSaBIT's business.

Outstanding securities

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

Security	Number outstanding as of April 27,2023
Common shares	149,783,724
Options (exercisable – 12,567,999)	19,101,590
RSU's (exercisable – nil)	1,228,922
Warrants	14,201,644