POSaBIT Systems Corporation

Interim Management's Discussion and Analysis

Quarterly Highlights

Three months ended March 31, 2023

(reported in US Dollars)

May 31, 2023

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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 May 31, 2023. 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 ended March 31, 2023 and 2022 (the "**Interim Consolidated Financial Statements**") and the Company's audited consolidated financial statements for the years ended December 31, 2022 and 2021 (the "**Audited Consolidated Financial Statements**"). Both the Audited Consolidated Financial Statements and the Interim 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 Interim 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 point-of-sale arrangements designed to offer consumers an easy way to 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 Canadian Securities Exchange ("**CSE**") under the trading symbol "**PBIT**".

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 Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors of the Company on May 25, 2023. Any reference to "**note**" or "**notes**" in this MD&A, refers to the corresponding note(s) in the Consolidated Financial Statements.

Credit facility

In March 2023, the Company entered into a credit facility agreement (the "**Credit Facility**") that provides a maximum drawdown of $8,000,000, has a term of three years and accrues interest at 10% per annum from the closing date of the drawdown and ending on the second anniversary of the closing date and 12% thereafter. Interest only to be paid quarterly on the amount drawn down, with outstanding principal and interest due on March 30, 2026.

Private placement

In January 2023, the Company completed a private place consisting of 4,533,333 units (each a "**2023 Unit**"), raising gross proceeds of $3,000,000. Each 2023 Unit consists of 1 common share and 0.95 warrants (each full warrant, a "**2023 Warrant**"). A total of 4,306,666 2023 Warrants were issued, with each 2023 Warrant exercisable for 3 years at a price of C$1.25. The relative fair value of the Warrants was estimated at $1,490,465 using the Black-Scholes option pricing model with the following assumptions: estimated life of 3 years, risk-free interest rate of 3.42%, cumulative volatility of 167.14%, dividends of $0.00 and an underlying share price of C$1.25. There were no financing costs of the private placement. The Warrants have been recorded in warrant reserves on consolidated statements of financial position.

Acquisition (business combination)

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

The Acquisition will be accounted for pursuant to *IFRS 3* Business Combinations. As such, the Company has engaged an independent third-party valuation service to complete the purchase price allocation.

Termination of acquisition

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 membership interest in MJ Freeway. LLC. It was anticipated that the transaction would close in late Q2, 2023. 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 terminating the Company's securities purchase agreement.

Changes to Company securities

Common shares

In addition to the 2023 Units noted above, the Company issued the following common shares during the three months ended March 31, 2023:

In January 2023, $25,000 of convertible debt was converted and 279,687 common shares were issued.

In January 2023, 105,238 common shares were issued on the exercise of the same number of warrants.

In February 2023, 81,494 common shares were issued upon the exercise of the same number of warrants.

Subsequent to the reporting period, In April 2023, the Company issued 4,968,584 common shares in connection with the Acquisition.

Warrants

In addition to the 2023 Warrants noted above, the Company issued the following warrants during the three months ended March 31, 2023:

In January 2023, 105,238 warrants were exercised raising proceeds of $14,996. The fair value of the exercised warrants of $15,000 was transferred from warrant reserve to common shares.

In February 2023, 81,494 warrants were exercised raising proceeds of $7,265.

In March 2023, 300,000 compensation warrants were issued in regard to the closing of the Credit Facility.

Options and RSUs

In January 2023, the Company issued 1,200,000 options with an exercise price of C$1.13 and expiry date of January 31, 2033.

In January 2023, 780,625 options expired, unexercised.

In January 2023, the Company rescinded 100,000 RSUs that were never issued.

In April 2023, 682,500 options with an exercise price of C$0.95 and with expiry dates ranging between two and four years, were issued.

In April 2023, 1,841,742 RSUs with various vesting criteria were issued.

(Reported in US Dollars)

Financial condition

As at March 31, 2023, the Company had assets totaling $22,774,089 and shareholders' equity of $9,312,668. This compares with assets of $17,996,874 and shareholders' equity of $8,223,022, at December 31, 2022.

During the quarter ended March 31, 2023, the Company's net assets increased by $1,089,646, the result of an increase in assets of $4,777,215, offset by an increase in liabilities of $3,687,569. The increase in liabilities was primarily driven by a drawdown of $3,000,000, made on the Company's new credit facility (note 13).

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

Item	Change	Explanation of change
	$	
Cash	4,200,831	Cash used for operating activities of $1,768,108, plus cash used for investing activities of $51,121, offset by cash provided from financing activities of $6,020,060.
Receivables and sales taxes recoverable	137,013	Receivables increased with normal increase sales.
Prepaid expenses and deposits	(53,883)	The decrease is the result of normalized annual expenditures and the recording of monthly expenses.
Inventories	93,988	Finished inventory increased by $282,571, as the Company geared up for increased requirements resulting from increased sales. This increase was offset by sold/rented equipment of $188,583.
Equipment	2,506	Additions of $11,180 offset by depreciation of $8,674.
Revenue-generating equipment	10,510	Additions of $39,941 offset by depreciation of $29,253 and disposals of $178
Contract asset	386,250	Accreted to revenue for the period.
Change in assets, increase	**4,777,215**	
Accounts payable and accrued liabilities	(998,470)	Increase in payables due to normal operational variation in payment timing.
Government loan	47	The decrease is due to accretion for the quarter of $2,146 less payments made of $2,193.
Derivative liability	(53,089)	Change in fair value of the remaining derivative liability for the quarter of $42,786 plus changes due to conversions of $10,303.
Convertible notes	146,361	The change for the quarter is due to interest accretion on the convertible notes of $111,058 plus face value of conversions of $25,000 plus change in derivative liability due to the conversion of $10,303.

(Reported in US Dollars)

Item	Change	Explanation of change
	$	
Credit facility	(2,792,418)	Drawdown of $3,000,000 offset by the fair value of the compensation warrants issued of $208,069 (note 13), plus accretion for the quarter of $487.
Change in liabilities, increase	**(3,697,569)**	
Increase in net assets	**1,079,646**	

Results of operations

Selected financial results of operations are summarized below:

	3 months ended March 31,			
	2023	2022	Year-over-year change Favourable/(Unfavourable)	
	$	$	$	%
Revenue	**11,491,590**	6,318,801	5,172,789	82
Cost of goods sold	**(9,167,266)**	(4,832,766)	(4,334,500)	(90)
Gross margin	**2,324,324**	1,486,035	838,289	56
Operating expenses, excluding forex	**(4,976,592)**	(3,195,044)	(1,781,548)	(56)
Forex	**(257,562)**	(320,204)	62,642	20
Loss before items below	**(2,909,830)**	(2,029,213)	(880,617)	(43)
Other income (expense)	**(126,896)**	1,559,459	(1,686,355)	(108)
Loss	**(3,036,726)**	(469,754)	(2,566,972)	(547)

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. It is also a result of investments the Company has made in revenue operations, primarily in its internal sales team and marketing. POSaBIT continues to invest in growth but also diligently manages its 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.

(Reported in US Dollars)

	Current year quarter-over-quarter				Year-over-year			
	March 31, 2023	**Dec. 31, 2022**	**Change Fav/(Unfav)**		**March 31, 2023**	**March 31, 2022**	**Change Fav/(Unfav)**	
	$	$	$	%	**$**	$	$	%
Revenue	**11,491,590**	24,851,511	(13,359,921)	(54)	**11,491,590**	6,318,801	5,172,789	82
Cost of goods sold	**(9,167,266)**	(8,669,216)	(498,050)	(6)	**(9,167,266)**	(4,832,766)	(4,334,500)	(90)
Gross margin (deficit)	**2,324,324**	16,182,295	(13,857,971)	(86)	**2,324,324**	1,486,035	838,289	56
Adjusted operating costs	**(4,343,817)**	(4,027,885)	(315,932)	(8)	**(4,343,817)**	(2,518,589)	(1,825,228)	(72)
Adjusted other costs (income)	**78,170**	148,143	(69,973)	(47)	**78,170**	-	78,170	-
Adjusted EBITDA	**(1,941,323)**	12,302,553	(14,243,876)	(116)	**(1,941,323)**	(1,032,554)	(908,769)	(88)

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

	March 31, 2023	Dec. 31, 2022[1]	March 31, 2022
	$	$	$
Earnings (loss), as reported	**(3,036,726)**	9,377,823	(469,754)
Add-back foreign exchange gains, as reported	**257,562**	593,993	320,204
Add back share-based compensation, as reported	**624,101**	539,942	659,919
Add back/(deduct) change in fair values of digital assets, as reported	**-**	-	3,046
Add back/(deduct) amortization and depreciation, as reported	**8,674**	(128,411)[2]	16,536
Add back/(deduct) change in expected credit losses, as reported	**4,347**	(55,221)	(1,993)
Add back bad debts, as reported	**13,824**	-	-
Add back finance costs, as reported	**13,495**	23,178	21,546
Add back/(deduct) change in fair value of derivative liability, as reported	**(123,960)**	1,298,578	(1,637,649)
Add back interest accretion, as reported	**57,834**	67,106	30,129
Add back income taxes, as reported	**-**	404,135	-
Add back/(deduct) transaction costs, as reported	**239,526**	181,430	25,462
Adjusted EBITDA	**(1,941,323)**	12,302,553	(1,032,554)

[1]Quarterly amounts not reported in the Company's Audited Consolidated Financial Statements for the years ended December 31, 2022 and 2021, 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, 2022.
[2]The negative amount reflects a reallocation of the depreciation on revenue-generating equipment to cost of sales.

In Q1 2023 compared to Q1 2022, revenue experienced significant growth, with an increase of 82%, equivalent to over $5.1 million on a year-over-year basis. During the same period, gross margin dollars also saw a boost, rising by $838,289. These impressive results were primarily driven by the continued success of POSaBIT's cashless payment system, as well as the industry-wide adoption of cashless payments.

It's worth noting that Q1 is typically a slow season for the industry, as evidenced by the reports of other participants and our own results, this was also seen in our results in Q1 of 2022. This slower period led to reduced demand from merchant customers and a decrease in average order value. Additionally, our sales efforts have been focused on targeting large multi-state and super-state merchants, which are defined as those with over 10 locations under a single brand. However, the onboarding process for PIN Debit merchants, which we have been prioritizing, takes longer compared to other payment products offered by the company. Due to these factors, our Q1 2023 revenue growth was modest compared to the previous quarter (Q4 2022), amounting to approximately $0.6 million (excluding revenue of approximately $13.9 million tied to our licensing contract). Since most of our revenue comes from transactional sales, the additional time required to onboard these merchants, combined with industry challenges, impacted our Q1 2023 results.

(Reported in US Dollars)

In terms of adjusted EBITDA, in Q1 2023 we saw a loss of $(1,941,223), compared to $(1,032,554) in Q1 2022 and $12,302,553 in Q4 2022.

POSaBIT is reconfirming its revenue guidance for 2023 of $58.5M to $61.5M, gross profit dollars of $12.5M to $14.5M and slightly negative on an adjusted EBITDA basis.

Related-party transactions and balances

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

The Company's transactions with related parties were, in the opinion of management, carried out on normal commercial terms and in the ordinary course of the Company's business.

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,	**2023**	2022
	$	$
Executive compensation to key managers	**552,450**	295,394
Share-based compensation to key managers	**440,161**	335,715
Totals	**992,611**	631,109

Litigation

The Company is, from time to time, involved in various claims and legal proceedings. The Company has been served with two statements of claims, both regarding contractual dispute between the Company and vendor. In August 2022, the Company was served with a statement of claim filed in Florida State court and in December 2022, the Company was served with a statement of claim filed in Washington District Court.

The Company has a receivable and payable recorded on the statements of financial position but the amounts have not been adjusted as the estimated outcome for either case is unavailable. The Company cannot reasonably predict the likelihood or outcome of the claim. The Company does not believe that adverse decisions regarding any settlement or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations.

Outstanding securities

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

Security	**Number outstanding**
Common shares	149,783,724
Options (exercisable – 12,307,999)	20,203,465
Restricted share units (RSU)	2,970,664
Warrants	14,201,644
Total fully diluted capitalization	187,159,497