POSaBIT Systems Corporation

Management's Discussion and Analysis

Year ended December 31, 2023

(Expressed in United States dollars)

May 14, 2024

POSaBIT Systems Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Expressed in United States dollars)

Year ended December 31, 2023

*This management discussion and analysis ("**MD&A**") has been prepared based on information available to POSaBIT Systems Corporation ("**POSaBIT**" or the "**Company**") as at May 14, 2024. 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, 2023 and 2022,* ***as restated*** *(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 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 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**".

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 15 Lake Bellevue Dr., Suite 101, Bellevue, Washington 98005. Its registered address in Canada is 77 King Street West, Suite 400, Toronto, Ontario, M5K 0A1. The Company's operations primarily involve the development and sale of point-of-sale software and payments services.

The Consolidated Financial Statements were authorized for issuance by the Board of Directors of the Company on May 13, 2024.

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 sector. POSaBIT offers the following solutions, point of sale software as a service and cashless payments. POSaBIT's products allow merchants to provide a normalized retail experience to their customers.

POSaBIT Point of Sale is its cornerstone product, it tracks all sales, integrates full customer history and preferences, and offers integrated debit and ACH payment options.

Impairment of Intangible Assets

On April 1, 2023, the Company acquired 100% of the assets of Hypur Inc. (the "**Hypur**") by way of an asset purchase agreement, for a purchase price of approximately $7,500,000. Hypur is a Nevada corporation that was a leading provider of compliant, sustainable payment and bank compliance solutions for high-risk industries, including cannabis businesses.

(Expressed in United States dollars)

The estimated fair value of the net assets acquired and the consideration, follows:

Estimated fair value	
	$
Cash and cash equivalents	105,083
Inventory	237,147
Debt-free working capital acquired	**342,230**
Contracts	2,680,000
Technology	170,000
Tradename	30,000
Identifiable intangible assets acquired	**2,880,000**
Goodwill	**4,257,493**
Purchase price	**7,479,723**

Consideration:		
		$
Cash		1,154,000
Cash holdback		500,000
Total cash		**1,654,000**
Equity:	**# of shares**	**$**
Common shares issued on closing	4,968,584	4,112,033
Equity holdback (to be released 6 months after closing) (the "**First Holdback**")	621,073	514,004
Equity holdback (to be released 1 year after closing)	621,073	514,004
Contingent consideration to be release 3 months after closing (employment considerations)	414,877	-
Contingent Consideration to be released 3 months after closing (certification consideration) (the "**Forfeited Consideration**")	413,635	342,327
Contingent Consideration to be released 1 year after closing	413,635	343,355
Total equity	**7,452,877**	**5,825,723**
Total consideration		**7,479,723**

For the year ended December 31, 2023, the Company has impaired the value of the Identifiable intangible assets acquired ($2,880,000) and the estimated Goodwill of $4,257,493 and recorded same in its consolidated statements of earnings (loss).

As at the date of filing, the Company has released the First Holdback and transferred the fair value of the Forfeited Consideration of 413,635 shares ($342,327) to retained earnings. Further, the Company is a party to a lawsuit (note 29.1) with Hypur regarding the release of the remaining Cash Holdback.

(Expressed in United States dollars)

Restatement of 2022 Consolidated Financial Statements

During the year ended December 31, 2023, the Company determined there was an error made in accounting for the contract asset (note 12): IFRS 15 requires that when the amount of consideration promised by a customer includes a significant financing component, an entity shall us the discount rate that would reflect the credit characteristics of the party receiving the financing. The discount rate of 2.8% that was used was subsequently determined to be in error and the appropriate discount rate of 12%, should have been used. Furthermore, it was determined that the discounting method was not applied correctly.

There was no impact to the Company's reported balances at January 1, 2022, as the contract was executed during the year ended December 31, 2022. In addition, there was no impact to other comprehensive income or the total operating, investing and financing cash flows for the year ended December 31, 2022.

Legal Settlement

The Company was a party to a legal claim (the "**Claim**"). Pursuant to IAS 37, the Company could not reasonably predict the likely outcome of the claim and as such, had not previously accrued any amount in this regard. In July 2023, the parties to the Claim agreed to arbitration that resulted in a settlement whereby both parties filed formal dismissal motions against the other. Each party agreed to bear the costs of its own legal counsel.

The settlement had the following effect on the Company's Statements of Financial Position and Statements of Loss:

		$
Reduction to forgiven receivable	Statement of Financial Position	(1,635,484)
Reduction to liabilities no longer due	Statement of Financial Position	720,608
Legal fees regarding the Claim	Statement of Loss	(1,058,346)
Payments to channel partners	Statement of Loss	(241,186)
TOTAL COST OF SETTLEMENT		**(2,214,408)**

The Company has reflected the cost of the settlement in its consolidated statements of earnings (loss).

Revenue streams

The Company earns revenue from i) Payment services, ii) Point-of-Sale ("**POS**") Services, iii) License of technology and iv) Support services related to its license of technology. The Company also earns revenue from rental and sale of hardware related to its payment and POS services.

(Expressed in United States dollars)

1.1 Payment Services

Payment Services are comprised of the following revenue generating transaction services:

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

Transaction fees - Each debit charge to the merchant is variable based on contracted percent of transaction fee, paid by merchant. In addition, the Company also 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 comprise the following revenue-generating transaction services:

Subscription fees – Charges to the merchant for a monthly or yearly subscription fee per terminal/console or per location. This fee is negotiated on a case-by-case basis with each merchant based on the volume of transactions and size of the merchant installation.

Set-up fees - Installation fees per location.

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

Hardware - POSaBIT charges the merchant for the purchase of the hardware.

1.3 License of technology and support services

In 2022, the Company entered into a multi-year royalty agreement (the "**License Agreement**") with a large *Cannabis* technology company ("**Licensee**"). As disclosed above during 2023, the Company discovered an error in its accounting for this royalty agreement. The initial recognition of the standalone selling price of $14,200,000 should have been discounted together with the remaining component of $6,180,000. Also, the discount rate of 2.8% was subsequently determined to be an error and the License Contract should have been discounted at 12%. Amended details are disclosed below.

Pursuant to the License Agreement, the Licensee will make the following license fee 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

(Expressed in United States dollars)

The Company determined, based on the analysis of its performance obligations, that the licensing component represents a right-of-use arrangement. The evaluation of the standalone selling price determined $14,420,000 of the 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. As a result of the financing component, the Company was required to determine the present value of the future payments using the discount rate at inception of the contract of 12%, as restated from 2.8%, resulting in a contract asset of $10,958,295, as restated. Notes 12 and 29 fully disclose the changes made as a result of the accounting error.

Financial position

As of December 31, 2023, the Company had assets totaling $13,161,317 and shareholders' equity of $5,309,515. This compares with assets of $15,233,691, as restated and shareholders' equity of $5,593,084, as restated, as of December 31, 2022.

During the year ended December 31, 2023, the Company's net assets decreased by $283,569 from the 2022 restated financial position, the result of a decrease in assets of $2,072,374 offset by a decrease in liabilities of $1,788,805.

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

Item	**Change**	**Explanation of change**
	$	
Cash	(1,554,085)	Cash provided from financing activities of $9,829,869 less cash used for operations of $7,659,664 less cash used for investing activities of $1,724,290.
Accounts receivable	(1,497,610)	Receivables decreased as a result of lower volume together with diligent collection efforts by the Company.
Prepaid expenses and other assets	(223,433)	The decrease mainly due to investor relations and marketing expenditures (see note 8).
Current portion of contract asset	2,513,939	See note 12 for contract asset details and note 29 regarding the restated 2022 balance of this category.
Inventory	(450,095)	The Company's inventory levels decreased by new capitalization threshold levels and provision for obsolete inventory.
Equipment	(55,056)	Approximately $27,000 of purchases offset by depreciation of approximately $82,000.
Revenue-generating equipment	648,641	Approximately $879,000 of purchases offset by depreciation of approximately $230,000.
Right-of-use asset	133,144	Additions of approximately $184,000 less depreciation of approximately $51,000.
Non-current portion of license asset	(1,587,819)	See note 12 for contract asset details and note 29 regarding the restated 2022 balance of this category.
Accounts payable and accrued liabilities	(185,890)	Increase in payables and accruals is due to normal operational variation in timing of payments.
Current portion of lease liability	(122,580)	See note 14 for details.

(Expressed in United States dollars)

Item	Change	Explanation of change
	$	
Income tax payable	147,065	Reflects the payment of a portion of outstanding federal taxes payable.
Holdback payable	(500,000)	Cash Holdback due pursuant to the Acquisition (note 5).
Credit facility	(4,398,970)	Change reflects draws of $4,750,000 less fair value of compensation warrants issued of $208,069 plus interest accretion for the year of $46,874 less fair value of the debt modification of $189,835, all as disclosed in note 17.
Non-current portion of lease liability	(10,891)	See note 14 for details.
SBA loan	(1,386)	Increase in balance due reflects current year interest accretion of $8,696 less repayments of $7,310.
Derivative liability	6,596,078	Change in fair value of the derivative liability that was discharged with the repayment of the convertible notes
Convertible notes	265,379	Notes repaid upon maturity.
	(283,569)	

Operations

At December 31, 2023, the Company had 54 full-time employees and 3 full-time contractors and operates in 21 states. Product development efforts focused on incremental feature enhancements to the payment service as well certifying the POSaBIT point-of-sale platform in states that have recently approved cannabis retail sales.

Selected annual financial information

	December 31, 2023	December 31, 2022 *(as restated, note 29)*	December 31, 2021
	$	$	$
Consolidated statements of earnings (loss)			
Revenue	**43,575,060**	46,801,122	21,301,749
Gross margin	**9,222,019**	19,594,702	5,614,122*
Total operating expenses	**(18,769,176)**	(17,410,868)	(5,743,603)*
Other income (expenses)	**(3,978,073)**	3,520,721	(10,436,226)*
Earnings (loss) prior to income taxes	**(13,525,230)**	5,704,555	(10,565,707)
Earnings (loss)	**(13,760,430)**	5,433,667	(10,565,707)
Consolidated statements of cash flow			
Cash provided from (used for) operations	**(7,659,664)**	3,113,743	(2,189,595)
Cash used for investing activities	**(1,724,290)**	(330,669)	(272,487)
Cash provided from (used for) financing activities	**7,829,869**	(4,125,622)	5,903,252
Increase (decrease) in cash	**(1,554,085)**	(1,342,548)	3,447,411
Consolidated statements of financial position			
Cash	**1,522,155**	3,076,240	4,418,788

(Expressed in United States dollars)

	December 31, 2023	December 31, 2022 *(as restated, note 29)*	December 31, 2021
	$	$	$
Total assets	**13,161,317**	15,233,691	7,903,775
Total liabilities	**(7,851,802)**	(9,640,605)	(16,610,918)
Shareholders' equity (deficiency)	**5,309,515**	5,593,086	(8,707,143)
Earnings per share			
Basic earnings (loss) per common share	**(0.092)**	0.040	(0.090)
Diluted net earnings (loss) per common share	**(0.092)**	0.038	(0.090)
	#	#	#
Weighted average common shares outstanding	**148,737,752**	135,434,137	116,346,410
Diluted weighted average common shares outstanding	**148,737,752**	145,016,997	116,346,410

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

Summary of quarterly results

	4th Quarter 2023	**3rd Quarter 2023**	**2nd Quarter 2023**	**1st Quarter 2023**
	$	**$**	**$**	**$**
Revenues	**5,022,755**	**13,586,420**	**13,474,295**	**11,491,590**
Gross margin	**992,558**	**3,185,843**	**2,719,294**	**2,324,324**
Total operating expenses	**(4,055,214)**	**(3,445,246)**	**(6,034,562)**	**(5,234,154)**
Other (expenses) income	**1,699,520**	**(7,231,013)**	**1,680,316**	**(126,896)**
Net earnings (loss) prior to income taxes	**(1,373,137)**	**(7,490,416)**	**(1,634,951)**	**(3,026,726)**
Net earnings (loss)	**(1,415,857)**	**(7,490,016)**	**(1,827,831)**	**(3,026,726)**
Basic earnings (loss) per common share	**(0.012)**	**(0.050)**	**(0.010)**	**(0.020)**
Diluted net earnings (loss) per common share	**(0.012)**	**(0.050)**	**(0.010)**	**(0.020)**
Total assets	**13,161,317**	**20,379,615**	**27,785,516**	**22,774,089**
Total liabilities	**(7,851,802)**	**(13,339,316)**	**(13,516,696)**	**(13,461,421)**
Shareholders' equity	**5,309,515**	**7,040,299**	**14,268,820**	**9,312,668**
Cash dividends declared per common share	**-**	**-**	**-**	**-**

	4th Quarter 2022 (as restated, note 33)	3rd Quarter 2022	2nd Quarter 2022	1st Quarter 2022
	$	$	$	$

	4th Quarter 2022 (as restated, note 33)	3rd Quarter 2022	2nd Quarter 2022	1st Quarter 2022
	$	$	$	$
Total revenues	21,880,516	10,330,937	8,229,936	6,359,733
Gross margin (loss)	15,211,300	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)	1,767,271	(1,231,614)	4,351,992	1,559,459
Loss prior to income tax	7,018,775	(1,224,320)	379,854	(469,754)
Earnings (loss)	6,855,002	(1,224,320)	379,854	(469,754)
Basic loss per common share	0.049	(0.010)	0.000	(0.000)
Diluted loss per common share	0.047	(0.010)	0.000	(0.000)
Total assets	15,233,691	12,628,608	9,218,839	6,765,327
Total liabilities	(9,833,490)	(14,995,174)	(9,979,288)	(14,964,951)
Shareholders' equity (deficiency)	5,400,201	(2,366,566)	(760,449)	(8,199,624)
Cash dividends declared per common share	-	-	-	-

Results of operations

POSaBIT main driver of growth in 2023 was its Payments business and to a lesser extent its Point-of-Sale software business. This was 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 made changes in its cost structure in late 2023 as it focuses on positioning itself for EBITDA neutral in 2024. See *Other selected financial information* of this MD&A).

Year ended December 31, 2023 and December 31, 2022

POSaBIT incurred losses during 2023 and earnings during 2022. Loss from operations for the year was $9,547,157 (2022 – earnings of $2,183,834, as restated) or $(0.064) (2022 - $0.015, as restated) per share, undiluted. Loss for the year was $13,760,430 (2022 – earnings of $5,433,667, as restated) or $(0.093) (2022 - $0.040, as restated) undiluted per share and $(0.088) (2022 - $0.038), fully-diluted.

Revenues of $43,575,060 *(2022 - $46,801,122, as restated)*

The decrease of approximately $3,226,000 from 2022, is largely attributable to the company recognizing the majority of the revenue from the licensing agreement in 2022 when compared to 2023. Excluding pos services, which includes revenue recognized for licensing, revenue grew year over year by $5,992,581. This was largely the result of increased transaction volume as well as new merchants onboarded in our payment serves business.

Cost of sales of $34,353,041 *(2022 - $27,206,420)*

Processing Fees of $30,495,245 (2022 - $23,603,652)

The increase of approximately $6,900,000 over 2022, is attributable to the increased volume of processing transactions.

Software License Fees of $654,041 (2022 - $313,597)

The increase of approximately $340,000 over 2022, is result of increasing overall scale of the operations within our hosting environments as well as new software tools for sales and operations.

Inventory impairment of $616,434 (2022 - $137,097)

The increase of approximately $479,000 over 2022, is due to monthly reconciliation of Inventory quantities and obsolescence. As well as the impairment of assets that are no longer usable with our current payment providers.

Hardware cost of sales of $747,951 (2022 - $749,301)

The decrease of approximately $1,300 from 2022, is due to better pricing on hardware in 2023 as well as a in material decrease in the number of new POS installs.

Sales labor and commissions of $1,839,370 (2022- $2,402,773)

The decrease of approximately $560,000 from 2022, is attributable to a reduced sales force in 2023 and the limited use of channel partners for sourcing new merchant relationships compared to the prior year.

Operating expenses of $18,769,176 *(2022 - $17,410,868)*

Administrative of $13,153,127 (2022 - $9,903,766)

The increase of approximately $3,250,000 over 2022, is primarily attributable to increased salaries and wages for our employees. See detailed variances below.

General of $1,307,296 (2022 - $1,222,822)

The increase of approximately $84,000 from 2022 is mainly attributable to software expenses of approximately $114,000 offset by decreased insurance, postage and shipping and recruiting fees.

Sales taxes of $566,897 (2022 - $710,824)

The decrease of approximately $144,000 from 2022 is due to mainly to decreased state and city taxes of approximately $133,000, supplemented by decreases in hardware sales taxes of approximately $11,000.

Meals and entertainment of $106,002 (2022 - $81,099)

The increase of approximately $25,000 over 2022 is due to increased sales activity and attendance at networking events to acquire new accounts.

Salaries and wages of $10,857,450 (2022 - $7,541,620)

The increase of approximately $3,315,000 over 2022 is the result of hiring new employees in all departments and increased salaries compared to 2022.

Travel of $278,394 (2022 - $285,994)

The decrease of approximately $7,500 from 2022 is due to a reduction in the number of team members traveling to conferences and events during the year, this was slightly offset by more travel to our main office by remote team members over the same period.

Amortization and depreciation of $303,615 (2022 - $36,647)

The increase of approximately $267,000 over 2022, is the result of increased depreciation of payment terminals the Company owns and rents out to merchants of approximately $96,000 supplemented by increased amortization on intangible assets of approximately $171,000.

Rent of $37,088 (2022 - $61,407)

The decrease of approximately $24,000 from 2022 is due to difference in number of months in 2023 versus 2022.

ssional fees tied to marketing
Marketing of $321,526 (2022 - $337,232)

The decrease of approximately $16,000 from 2022 is due primarily to an decrease in attendance at conferences this decrease was partially offset by increases in general marketing costs and professional fees tied to marketing.

Professional fees of $2,011,157 (2022 - $2,024,166)

The decrease of approximately $13,000 from 2022 is due primarily to increases in Board of Director fees, audit fees, consulting and contractor costs of approximately $738,000 offset by decreases to accounting, investor relations and legal fees totaling approximately $751,000.

Share-based compensation of $3,471,246 (2022 - $2,229,402)

The increase of approximately $1,242,000 over 2022 is the result of a greater number of options and RSUs granted during 2023 together with the carry-forward effect of increased vesting over prior years.

Other income (expenses) of $(3,978,073) *(2022 - $3,520,721, as restated)*

Change in expected credit losses and bad debts of $(648,387) (2022 – $20,697)

The change of approximately $670,000 over 2022 reflects the Company's estimate of credit losses due to credit risk of the underlying aged accounts receivable balances and the discontinuance of merchant processing with one of its providers.

Finance Costs of $840,789 (2021 – $275,042)

The increase of approximately $566,000 over 2022 is primarily driven by the increase of non-cash interest accretion on the convertible notes and government loan of approximately $330,000, supplemented by interest expense on the credit facility of approximately $253,000 offset by increased interest income.

Change in fair value of derivative liabilities of $5,996,544 (2022 - $4,006,369)

The change of approximately $1,990,000 from 2022, is due to the mark-to-market of the derivative liability underlying the convertible notes that were repaid on maturity.

Gain on debt modification of $75,975 (2022 - $nil)

The increase of approximately $76,000 over 2022, is due modification of the credit facility (note 17).

Interest income of $1,055,959 (2022 - $355,955, as restated)

(Expressed in United States dollars)

The increase of approximately $700,000 over 2022, is due to the full year revenue from the License Contract versus part year in 2022.

Loss on disposal of assets of $nil (2022 - $62,484)

The decrease of approximately $61,000 from 2022, is the result of the Company disposing of assets during 2023 at net book value.

Impairment of goodwill of $4,027,493 (2022 - $nil)

The increase of approximately $4,027,000 resulted from the impairment assessment completed by the Company regarding the Hypur Acquisition (note 5).

Impairment of intangible assets of $2,889,258 (2022 - $nil)

The increase of approximately $2,890,000 resulted from the impairment assessments completed by the Company regarding the Hypur Acquisition (note 5) .

Other income of $102,720 (2022 - $nil)

The increase of approximately $103,000 over 2022, resulted from the receipt of break fees (less offsetting legal costs) from the SPA (note 23).

Litigation settlement of $2,214,408 (2022 - $nil)

The increase of approximately $2,214,000 over 2022, resulted from the settlement of the Claim (note 27.3).

Transaction costs of $538,936 (2022 - $519,261)

The increase of approximately $20,000 over 2022, is due to increased costs tied to software integration during the year compared to prior year, these costs are not expected to decline in 2024.

Income taxes of $235,200 (2022 – $270,890, as restated)

The decrease of approximately $36,000 from 2022, is the result of lower taxable income for 2023 together with the lower income restatement of 2022.

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.

	3 months ended December 31,				Year ended December 31,			
	2023	**2023** *(as restated-note 33)*	**Change Fav/(Unfav)**		**2023**	**2022** *(as restated-note 33)*	**Change Fav/(Unfav)**	
	$	$	$	%	$	$	$	%
Revenue	**5,022,755**	13,586,420	(8,563,665)	(63)	**43,575,060**	46,801,122	(3,226,062)	(7)

(Expressed in United States dollars)

	3 months ended December 31,				Year ended December 31,			
	2023	2023 *(as restated-note 33)*	Change Fav/(Unfav)		2023	2022 *(as restated-note 33)*	Change Fav/(Unfav)	
	$	$	$	%	$	$	$	%
Cost of goods sold	**(4,030,197)**	(10,440,577)	6,370,380	61	**(34,353,041)**	(27,206,420)	(7,146,621)	(26)
Gross margin	**992,558**	3,185,843	(2,193,285)	(69)	**9,222,019**	19,594,702	(10,372,683)	(53)
Adjusted operating costs	**(2,865,881)**	(3,299,007)	333,126	10	**(15,603,107)**	(12,353,970)	(3,249,137)	(26)
Adjusted other costs (income)	**687,944**	82,132	605,812	738	**733,541**	268,588	464,953	173
Adjusted EBITDA	**(1,285,379)**	(31,032)	(1,254,347)	(4,042)	**(5,647,547)**	7,509,320	(13,156,867)	(175)

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

Year ended	**December 31, 2023**	December 31, 2022 *(as restated-note 29)*
	$	$
Income (loss), as reported	**(13,760,430)**	5,704,555
Deduct foreign exchange gains, as reported	**(608,792)**	2,790,849
Deduct (add back) change in fair values of financial instruments as reported	**-**	5,513
Deduct (add back) change in expected credit losses and bad debts, as reported	**648,387**	(20,697)
Deduct gain on debt modification, as reported	**(75,975)**	-
Deduct other income, as reported	**(102,720)**	-
Add back change in fair value of derivative liability, as reported	**(5,996,544)**	(4,006,369)
Add back depreciation and amortization, as reported	**303,615**	36,647
Add back impairment of intangible assets, as reported	**2,709,258**	-
Add back impairment of goodwill, as reported	**4,257,493**	-
Add back: income taxes, as reported	**235,200**	270,890
Add back interest accretion, as reported	**518,371**	187,675
Add back litigation settlement, as reported	**2,214,408**	-
Add back share-based compensation, as reported	**3,471,246**	2,229,402
Add back transaction costs, as reported	**538,936**	519,261
Adjusted EBITDA	**(5,647,547)**	7,509,320

Corporate and financings

Year ended December 31, 2023

Unit financings

In January 2023, the Company completed a private placement 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 2023 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 2023 Warrants have been recorded in warrant reserves on consolidated statements of financial position. These 2023 Units were subscribed by a related party of the Company.

In December 2023, the Company completed a private placement (the "**December 2023 Financing**") consisting of 3,107,142 units (each a "**December 2023 Unit**"), raising gross proceeds of $652,320. Each December 2023 Unit consists of 1 common share and 0.88 warrants (each full warrant, a "**December 2023 Warrant**"). A total of 2,734,284, December 2023 Warrants were issued, with each December 2023 Warrant exercisable for 5 years at a price of C$0.40. The relative fair value of the December 2023 Warrants was estimated at $339,114 using the Black-Scholes option pricing model with the following assumptions: estimated life of 5 years, risk-free interest rate of 3.17%, cumulative volatility of 215.78%, dividends of $0.00 and an underlying share price of C$0.40. There were no financing costs of the private placement. The December 2023 Warrants have been recorded in warrant reserves on consolidated statements of financial position. Out of the total December 2023 unit, 2,857,929 units were issued to a related party of the Company.

Debt conversions

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

In October 2023, $225,000 of Convertible Notes were converted and 2,598,187 common shares were issued

Acquisition

In April 2023, the Company completed the Hypur Acquisition (note 5), issuing 4,968,584 common shares with a fair value of $4,112,033.

In November 2023, 621,073 common shares with a deemed value of $514,004, were issued regarding the release of the First Holdback (note 5).

Exercises

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 September 2023, the Company issued 240,050 common shares on the exercise of the same number of options. The exercise raised gross proceeds of $25,509.

Termination of Akerna acquisition (note 23)

On January 27, 2023, the Company signed a securities purchase agreement (the "**SPA**") with Akerna Corp for all the outstanding securities of Akerna Ample Exchange Inc. and all membership interests 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, unless the Company exercised its rights under the SPA to match or better the competing offer, Akerna Corp. intended to terminate the SPA. The Company elected not to increase its offer and the SPA was terminated. Pursuant to the terms of the SPA, on June 20, 2023, the Company received $202,820 from Akerna Corp. The Company offset $100,100 of legal costs incurred regarding this proposed transaction. The resulting other income of $102,720 has been recorded in the statements of comprehensive earnings (loss).

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.

Pursuant to the Credit Facility, the Company issued 300,000 advisory warrants (the "**Advisory Warrants**"). The fair value of the Advisory Warrants of $208,069 was estimated using the Black Scholes option model with assumptions as disclosed in note 18.4. The fair value of the Advisory Warrants has been offset against the face value of the Credit Facility and will be accreted over the term of the Credit Facility.

In November 2023, the Credit Facility was amended to extend its term by two years to mature March 30, 2028 (the "**Modification**"). The Company completed its analysis of the Modification pursuant to IFRS 9 *Financial Instruments* to determine whether the amendment was a substantial or non-substantial modification. The Company determined the Modification was not substantial and has accounted for the change pursuant to a non-substantial debt modification. The fair value of the debt modification of $189,835, resulted in a gain of $75,975 and $113,860 adjustment due to change in exchange rates, both recorded in the consolidated statements of earnings (loss). Total interest expense charged during the year ended December 31, 2023, is $258,121 (2022- nil).

Litigation

The Company is, from time to time, involved in various claims and legal proceedings. In August 2022, the Company was served with a statement of claim (the "**Action**") filed in Florida State court against the Company regarding a contractual dispute between the Company and vendor. The Company believes the Action is without merit.

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.

Hypur litigation

Subsequent to year end, on February 13, 2024, the Company was served with a statement of claim filed in U.S. District Court in the Western District of Washington against the Company regarding a contractual dispute between the Company and HPR holdings Inc, the entity formally known as Hypur, Inc, from which the Company purchased assets on April 1, 2023. The Company believes this claim is without merit. On March 1, 2024, the Company asserted counterclaims against Hypur alleging breach of contract and related claims.

Legal settlement

The Company was a party to a legal claim (the "**Action**") filed in August 2022. Pursuant to IAS 37, the Company could not reasonably predict the likely outcome of the claim and as such, had not accrued any amount in this regard. In July 2023, the parties to the Claim agreed to arbitration that resulted in a settlement whereby both parties filed formal dismissal motions against the other. Each party agreed to bear the costs of its own legal counsel.

The settlement had the following affect on the Company's Statements of Financial Position and Statements of Loss:

(Expressed in United States dollars)

		$
Reduction to receivable	Statement of Financial Position	(1,635,484)
Reduction to liabilities	Statement of Financial Position	720,608
Legal fees regarding the Claim	Statement of Loss	(1,058,346)
Payments to channel partners	Statement of Loss	(241,086)
TOTAL COST OF SETTLEMENT		**(2,214,408)**

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, Chief Compliance Officer and the Chief Strategic Officer. Compensation paid or payable to key management is detailed below:

Year ended December 31,	**2023**	2022
	$	$
Executive Compensation to key managers	**2,296,736**	1,417,408
Share-based compensation to key managers	**2,825,909**	757,688
Totals	**5,122,645**	2,175,096

See more details on related party share subscriptions in note 18 and credit facility obtained from a related party in note 17.

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, 2023, the Company's financial instruments consist of cash, receivables, license contract, accounts payable and credit facility. The fair values of cash, accounts receivable and accounts payable approximate their carrying values due to the relatively short-term to maturity.

The Company classifies its license contract at amortized cost and credit facility at fair value through profit and loss.

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.

The Company believes that its receivables balance is fully collectable. After providing for estimated credit losses, as at December 31, 2023, $1,247,511 (December 31, 2022 – $2,745,121) 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, 2023 the Company has evaluated its receivables due from its processors and determined the lifetime expected credit losses are nominal.

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, 2023.

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, 2023 and 2022. There are no external capital management requirements or covenants as at December 31, 2023 and December 31, 2022, 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

Market risk

The POS equipment and services business is highly competitive, with a substantial number of large and well-entrenched competitors. The Company has current and potential competitors that offer similar payment services, may have considerably greater financial and other resources than we do. 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

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's payment processing business operates in the cannabis industry in the United States and is highly dependent on certain critical service providers. Cannabis is currently classified as a Schedule I drug by the US Drug Enforcement Agency. Accordingly, POSaBIT' s payments processing business is subject to shut-downs or limitations based on assessment by these service providers of their willingness to support debit card processing in the cannabis industry.

POSaBIT has established positive relationships with its local bank, as well as its Independent Sales Organization "**ISO**" and sponsor bank, 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**
Common shares	156,350,176
Options (exercisable – 12,741,502)	17,378,386
RSUs	3,045,664
Warrants	9,860,572