



# **POSaBIT Systems Corporation**

**Interim Management's Discussion and Analysis**

**Quarterly Highlights**

**Three months ended March 31, 2021**

**(reported in US Dollars)**

**May 25, 2021**

# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended March 31, 2021 (Reported in US Dollars)

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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 25, 2021. 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 months ended March 31, 2021 and 2020 (the “Consolidated Financial Statements”) and the Company’s audited consolidated financial statements for the years ended December 31, 2020 and 2019 (the “Audited Consolidated Financial Statements”). Both the Audited Consolidated Financial Statements and the Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this Interim MD&A has also been prepared by management and is consistent with the data contained in the Consolidated Financial Statements. Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company’s website at [www.posabit.com](http://www.posabit.com).*

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As the Company is a Venture Issuer (as defined under under *National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings*) (“NI 52-109”), the Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures (“DC&P”) and/or Internal Controls over Financial Reporting (“ICFR”), as defined in NI 52-109, **nor has it completed such an evaluation**. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective basis DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS**

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



**POSaBIT Systems Corporation**  
**INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**General**

POSaBIT Systems Corporation (“**POSaBIT**” or the “**Company**”), was incorporated on June 12, 2017, pursuant to the *Business Corporations Act* (British Columbia). On April 5, 2019, the Company completed the reverse acquisition of POSaBIT, Inc. (“**POSaBIT US**”), a private company incorporated under the laws of the State of Washington, by way of a triangular merger (the “**Transaction**”). Upon completion of the Transaction, the Company changed its name to POSaBIT Systems Corporation and now primarily involve the point-of-sale arrangements designed to offer consumers an easy way to purchase goods and services. Pursuant to the Transaction, the shareholder of POSaBIT US received 1.7539815 securities of the Company for each security of POSaBIT US held including common shares, options, and warrants.

In connection with the Transaction, the Company delisted from the TSXV and obtained listing on the Canadian Securities Exchange (“**CSE**”) under the trading symbol “**PBIT**”.

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

The unaudited interim consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, which contemplates the realization of assets and settlement of liabilities as they fall due in the normal course of business for the foreseeable future. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. The Company has incurred losses and has had negative cash flows from operations from the inception that have primarily been funded through financing activities.

As at March 31, 2021, the Company has a reported working capital deficit of \$209,082 (December 31, 2020 – \$2,236,339) and has a shareholders' deficiency \$1,341,783 (December 31, 2020 – \$3,056,983). These factors indicate the existence of uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. The Company may need to raise additional capital during the next twelve months and possibly beyond to support current operations and planned development and expansion activities. The Financial Statements do not reflect the adjustments to the carrying amounts of assets and liabilities and the reported expenses that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

The Consolidated Financial Statements were authorized for issuance by the Board of Directors of the Company on May 24, 2021. Any reference to “notes” in this MD&A, refers to the corresponding note in the Consolidated Financial Statements.

**Financing**

During the quarter ended March 31, 2021, the Company completed a private placement consisting of 11,029,565 units (each a “**Unit**”), raising gross proceeds of \$2,000,000. Each Unit consists of 1 common share and 0.3627 warrants (each full warrant, a “**Warrant**”). A total of 4,000,419 Warrants were issued, with each Warrant exercisable for 3 years at a price of C\$0.35. The fair value of the Warrants was estimated at \$222,690 using the Black-Scholes option pricing model with the following assumptions: estimated life of 3 years, risk-free interest rate of 0.30%, cumulative volatility of 167.14%, dividends of \$0.00 and an underlying share price of C\$0.275. There were no financing costs of the private placement.

**Option and warrant exercises**

During the period from January 1, 2021 through the date of this MD&A, 187,630 warrants were exercised raising proceeds of \$19,704. Also during this period, 11,102 options were exercised, raising proceeds of \$1,176.



# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended March 31, 2021 (Reported in US Dollars)

### Conversions

During the period from January 1, 2021 through the date of this MD&A, \$70,000 in face-value of the convertible notes (note 13) were converted to equity, with the issuance of 741,016 common shares.

### Financial condition

As at March 31, 2021, the Company had assets totaling \$7,492,501 and shareholders' deficiency of \$1,341,783. This compares with assets of \$3,685,719 and shareholders' deficiency of 3,056,985, at December 31, 2020.

During the quarter ended March 31, 2021, the Company's net assets increased by \$1,715,202, the result of an increase in assets of \$3,806,782, offset by an increase in liabilities of \$2,091,580.

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

Item	Change	Explanation of change
	\$	
Cash	3,979,592	Cash provided from operating activities of \$2,190,414 plus cash provided from financing activities of \$1,843,979 less cash used for investing activities of \$54,801.
Receivables and sales taxes recoverable	(175,909)	Receivables decreased with increased collection efforts and procedures.
Prepaid expenses	(6,210)	The decrease is the result of normalized recording of expenses.
Digital assets	2,151	Normal mark-to-market change.
Due from sale of discontinued operations	(65,000)	The final installment of the sale price of DoubleBeam operations was received by the Company.
Due to/from related parties	9,805	Details disclosed in note 17 of the Consolidated Financial Statements or in the <i>Transactions with related parties</i> section of this MD&A.
Inventories	81,747	Finished inventory increased as the Company geared up for increased requirements resulting from increased sales.
Right-of-use (ROU) assets	(19,047)	The Company adopted IFRS 16 as at January 1, 2019 and has recognized its office lease as a ROU asset. The change reflects the depreciation recorded on the ROU assets for the quarter.
Equipment	19,763	Approximately \$54,000 of purchases offset by depreciation of approximately \$34,000
Intangible assets	(20,110)	Change due entirely to amortization recorded for the quarter.
<b>Change in assets</b>	<b>3,806,782</b>	
Accounts payable and accrued liabilities	(2,018,631)	Increase in payables due to normal operational variation in payment timing.
Lease liabilities	19,712	The Company adopted IFRS 16 as at January 1, 2019 and has recognized its office lease liability. The decrease in



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Item	Change	Explanation of change
	\$	liability is a result of an increase of \$394 due to interest less payments of \$20,106
Notes payable	200,000	Note 2 (note 12) was repaid in full.
Government loan	(2,009)	The increase is due entirely to accretion for the quarter.
Derivative liability	(285,727)	Change in fair value of the remaining derivative liability for the quarter. Amount is net of fair value related to portion converted (note 13) for the quarter, being \$37,000.
Convertible notes	(4,925)	Conversion of \$50,000 face-value note less interest accretion of \$18,000 less fair value change of \$37,000
<b>Change in liabilities</b>	<b>(2,091,580)</b>	
	<b>1,715,202</b>	

### Results of operations

Selected financial results of operations are summarized below:

	3 months ended March 31,			
	2021	2020	Year-over-year change Favourable/(Unfavourable)	
	\$	\$	\$	%
Revenue	3,546,343	942,272	2,604,071	276.4
Cost of goods sold	(2,646,627)	(871,439)	(1,775,188)	(203.7)
<b>Gross margin</b>	<b>899,716</b>	<b>70,833</b>	<b>828,883</b>	<b>1,170.2</b>
Operating costs	(1,046,041)	(629,545)	(416,496)	(66.2)
	(146,325)	(558,712)	412,387	73.8
Other expenses (income)	(367,757)	3,637	(371,384)	(10,329.4)
<b>Loss</b>	<b>(514,082)</b>	<b>(555,085)</b>	<b>41,003</b>	<b>7.4</b>

POSaBIT continues to experience significant growth for the last 5 consecutive quarters. 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 cannabis consumption in the United States. This resulted in exceptional year over year revenue and gross margin growth. POSaBIT continues to invest in growth but also diligently manage our operational costs. This resulted in POSaBIT's third consecutive adjusted EBITDA profitable quarter.

### 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.



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## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended March 31, 2021 (Reported in US Dollars)

	Current year quarter-over-quarter				Year-over-year			
	March 31, 2021	December 31, 2020	Change Fav/(Unfav)		March 31, 2021	March 31, 2020	Change Fav/(Unfav)	
	\$	\$	\$	%	\$	\$	\$	%
Revenue	3,546,343	3,057,600	488,743	16	3,546,343	942,272	2,604,071	276
Cost of goods sold	(2,646,627)	(2,260,858)	(385,858)	(17)	(2,646,627)	(871,439)	(1,775,188)	(204)
Gross margin (deficit)	899,716	796,742	102,974	13	899,716	70,833	828,883	1,170
Adjusted operating costs	(808,275)	(824,453)	16,178	2	(808,275)	(506,636)	(301,639)	60
Adjusted other costs (income)	(20,676)	100,422	(121,098)	(121)	(20,676)	(364)	(20,312)	(5,580)
<b>Adjusted EBITDA</b>	<b>70,765</b>	<b>72,711</b>	<b>(1,946)</b>	<b>(3)</b>	<b>70,765</b>	<b>(436,167)</b>	<b>506,932</b>	<b>116</b>

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

	March 31, 2021	March 31, 2020	December 31, 2020*
	\$	\$	
Loss from continuing operations, as reported	(514,082)	(555,085)	(257,286)
Add back finance costs, as reported	34,186	19,605	29,082
Add back depreciation and amortization, as reported	74,152	96,449	77,053
Add back/(deduct) change in fair values of financial instruments as reported	(2,151)	2,847	(2,076)
Add back/(deduct) change in expected credit losses, as reported	(8,636)	(27,371)	66,627
Add back change in fair value of derivative liability, as reported	322,381	-	77,688
Add back loss on disposal of assets, as reported	1,301	928	242
Add back share-based compensation, as reported	56,458	35,211	53,560
Add back loss on disposal of discontinued business, as reported	-	-	197,580
(Deduct)/add back foreign exchange (gains)/losses	107,156	(8,751)	(169,759)
<b>Adjusted EBITDA</b>	<b>70,765</b>	<b>(436,167)</b>	<b>72,711</b>

\*As final quarter amounts are not reported in the Audited Consolidated Financial Statement, this as per the Company's Annual MD&A.

As mentioned above, POSaBIT delivered record-setting sales and Adjusted EBITDA profitability in Q1 2021. Revenue grew between Q1 2021 vs. Q1 2020 by 276% - increasing by over \$2.6M quarter-over-quarter. Similarly, growth in revenues for the first quarter of 2021 over the previous quarter was 626% - increasing by over \$3M. Gross margin dollars increased \$828,883 and 796,742 between Q1 2021 versus Q1 2020 and Q1 2021 versus Q4 2020, respectively. Adjusted EBITDA dollars remained steady at \$70,765 versus \$72,711 between Q1 2021 and Q4 2020, respectively. Growth drivers include expansion of POSaBIT into 1 new state, continued strong sales due to POSaBIT's contactless payment system, the launch of the new POSaBIT ACH payments business and the continued increase in stores using POSaBIT for both Payments and Point of Sale.

POSaBIT maintains its forward guidance as provided in its full year ending 2020 earnings release. The Company forecasts for 2021, a doubling of transactional sales and an increase in total revenue of approximately \$6.7M to \$8.2M over 2020, to approximately \$14.5M to \$16M. POSaBIT anticipates growth in gross margin to 28% - 32% for the full year ending 2021. POSaBIT also updates its forecast to now have its fourth consecutive adjusted EBITDA profitable quarter in Q2 2021.



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### ***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.

Included in operating expenses are licence fees paid to PlaceFull Inc., a company in which the CEO owns significant shareholdings.

### **Key management compensation**

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the directors, named executive officers, being the Chief Executive Officer and the Chief Financial Officer. Others include the Company's Chief Technology Officer and its Chief Revenue Officer. Related-party compensation paid or payable to key management is detailed below:

<b>3 months ended March 31,</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Executive compensation to key managers	<b>215,000</b>	134,000
Licence fees to PlaceFull Inc.	<b>30,000</b>	30,000
<b>Totals</b>	<b>245,000</b>	164,000

As at March 31, 2021, PlaceFull Inc. owed the company \$201,729 (December 31, 2020 - \$196,626). This loan is unsecured, interest free and due on demand.

### ***Outstanding securities***

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

<b>Security</b>	<b>Number outstanding</b>
Common shares	109,217,250
Options (exercisable – 8,226,002)	12,326,267
Warrants	27,045,231
Agent options	648,481



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***Escrowed securities***

As of the date of the MD&A and subject to the policies of the CSE, the following table summarizes the remaining common shares of the Company that are subject to escrow provisions together with the date of general release.

<b>Total</b>	<b>October 5, 2021</b>	<b>April 5, 2022</b>
6,130,210	3,065,105	3,065,105

