



# **POSaBIT Systems Corporation**

(formerly, Foreside Exploration Partners Corp.)

## **Interim Management's Discussion and Analysis**

### **Quarterly Highlights**

**Three months ended June 30, 2019**

**August 29, 2019**

**INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**QUARTERLY HIGHLIGHTS**  
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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 (formerly, Foreshore Exploration Partners Corp.) (“POSaBIT” or the “Company”) as at August 29, 2019. This Interim MD&A is based on information available to POSaBIT and updates disclosure previously provided in the Company’s Annual and interim MD&A’s, up to the date of this Interim MD&A and should be read in conjunction with the Company’s unaudited interim consolidated financial statements and the related notes as at and for the three and six months ended June 30, 2019 and 2018 (the “Unaudited Interim Consolidated Financial Statements”) and the Company’s audited consolidated financial statements for the years ended October 31, 2018 and 2017 (the “Audited Consolidated Financial Statements”). Both the Audited Consolidated Financial Statements and the Unaudited 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 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 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.



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**General**

POSaBIT Systems Corporation was incorporated as Foreshore Exploration Partners Corp. ("**Foreshore**") on June 12, 2017, pursuant to the *Business Corporations Act* (British Columbia) and was a Capital Pool Company, pursuant to the policies of the TSX Venture Exchange ("**TSXV**"). On March 29, 2019, Foreshore obtained receipt of its final prospectus filed with regulatory authorities in British Columbia, Alberta and Ontario, in connection with its proposed reverse takeover transaction (the "**Transaction**"), with POSaBIT, Inc. Pursuant to the Transaction that was completed on April 5, 2019, Foreshore by way of a plan of merger, acquired all of the issued and outstanding shares of POSaBIT, Inc. through a merger of the Company's wholly-owned subsidiary, POSaBIT Merger Sub, Inc. with POSaBIT, Inc. as the surviving legal subsidiary of the Foreshore. Upon completion of the merger, POSaBIT, Inc. was renamed POSaBIT US, Inc ("**POSaBIT US**"). Pursuant to the merger, existing POSaBIT US securities holders would receive 1.7539815 Company securities (common shares, options, warrants, finder/agent warrants, as applicable) for each POSaBIT US security held.

In connection with the Transaction, Foreshore delisted from the TSXV and obtained listing on the Canadian Securities Exchange ("**CSE**") under the trading symbol "**PBIT**". Details of the Transaction are disclosed in note 4(a) of the Unaudited Interim Consolidated Financial Statements.

The Company's head office is located at 1128 8<sup>th</sup> Street, Kirkland, Washington 98033. It's registered address in Canada is 110 Yonge Street, Suite 400, Toronto, Ontario, M5C 1T4. The Company's operations primarily involve point-of-sale arrangements designed to offer consumers an easy way to acquire digital currency and use it to purchase goods and services.

The Unaudited Interim Consolidated Financial Statements have been prepared using International Financial Reporting Standards ("**IFRS**") applicable to 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 Consolidated Financial Statements do not reflect the adjustments to the carrying amounts of assets and liabilities and the reported expenses and consolidated statement of financial position classifications 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.

As at June 30, 2019, the Company has a reported working capital deficit of \$1,760,215 (December 31, 2018 – \$329,462) and has shareholders' deficiency \$995,617 (December 31, 2018 – equity of \$577,510). 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. These factors indicate the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern.

The Unaudited Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors of the Company on August 28, 2019.

**Financial condition**

As at June 30, 2019, the Company had assets totaling \$2,976,362 and shareholders' deficiency of \$995,617. This compares with assets of \$4,025,660 and shareholders' equity of \$577,510, as at December 31, 2018.

During the quarter ended June 30, 2019, the Company's net assets decreased by \$834,944, the result of a decrease in assets of \$597,023, supplemented by an increase in liabilities of \$237,920. The decrease in assets was the result of a decrease in cash of \$271,050 (cash used for operating activities of \$1,165,053, plus cash used for financing activities of \$39,894 plus cash used for investing activities of \$133,436 offset by the release of restricted cash of \$767,246) and prepaid expenses of \$13,007. These decreases were offset with increases to receivables of \$330,106, due from related parties of \$71,016 (see *Related-party transactions and balances* section



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of this MD&A), inventories of \$7,315, digital asset of \$7,559 and equipment and intangibles of \$10,151 (purchases of \$104,814 less depreciation and amortization of \$94,663).

The increase in liabilities of \$523,828, resulted from an increase in accounts payable and accrued liabilities of \$323,828 and the issuance of note payable of \$200,000 (see the *Issuance of Securities* section of this MD&A, below).

**Corporate activities**

**Operations**

POSaBIT continued its significant revenue growth in 2019 with an increase of 228% in Q1 and Q2 over the same period in 2018. This growth was driven by rapid expansion into Washington, Nevada, California, Colorado, Oklahoma and Arizona. With strategic sales execution and continued expansion into new and growing markets, like Oregon, POSaBIT is on track to deliver on our 2019 financial commitments. Overall transactional sales have increased from \$6M USD at this time last year to over \$27M, in 2019. The Company continues to see strong adoption of its fully-featured point of sales solution, in addition to its longstanding payments-only business. POSaBIT is fully-integrated with both Leaf Data Systems and Metrc for state seed-to-sale tracking and compliance.

**Business combination with Foreshore Exploration Partners Corp.**

The Company completed the Transaction on April 5, 2019. The Transaction constitutes a reverse-takeover of Foreshore but does not meet the definition of a business combination, and therefore *IFRS 3 Business Combinations* is not applicable. As a result, and in accordance with reverse take-over accounting for a transaction that is **not** considered a business combination:

- a) Foreshore is treated as the acquiree and POSaBIT is treated as the acquirer and therefore, the go-forward entity is deemed to be a continuation of POSaBIT and POSaBIT is deemed to have acquired control of the assets and business of Foreshore in the consideration of the issuance of capital, options and warrants, as applicable.

For accounting purposes, POSaBIT is deemed to have issued the following securities in exchange for the net assets of Foreshore:

**The fair value of the consideration issued for the net assets of Foreshore is as follows:**

	\$
3,250,000 common shares valued at \$0.45 per share	1,456,746
300,000 Options (note 4 (a)(i))	112,730
43,000 Agent Options (note 4 (a) (ii))	16,126
	<b>1,585,602</b>

**Allocated to Foreshore's net assets:**

	\$
Cash	77,589
Accounts payable	(185)
Net assets	77,404
Cost of listing (expensed)	1,508,198
	<b>1,585,602</b>



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- i) The fair value of the options was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.59%, volatility of 80.355%, share price of \$0.45 and dividends of nil.
  - ii) The fair value of the Agent Options was calculated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.59%, volatility of 80.355%, share price of \$0.45 and dividends of nil.
- b) Foreshore's share capital (net of issuance costs) and contributed surplus are eliminated by a charge to retained earnings.
- c) The assets and liabilities of Foreshore are included in the consolidated statements of financial position at their historical carrying values, which approximates their fair values. The assets and liabilities of POSaBIT are included in the consolidated financial statements of financial position at their fair values.

***Issuance of securities***

***Common shares:***

- (i) In August, the Company closed on a brokered private placement (the "**Financing**") by issuing 6,026,597 units at \$0.12 per unit (C\$0.15), raising gross proceeds of \$711,692 (C\$225,998). Each unit consisted on one common share and 1 common-share purchase warrant, exercisable for 2 years after issue at C\$0.30 each. In concert with the Financing, the Company incurred broker fees and expenses of \$97,000 (C\$121,250) and issued 500,000 corporate finance options, exercisable at C\$0.15 each that were immediately exercised.
- (ii) In June 2019, the Company issued 300,000 shares on the exercise of options that raised \$22,413. The fair value of the exercised options of \$112,730 was transferred from contributed surplus to share capital.
- (iii) In June 2019, the Company issued 52,619 common shares on the exercise of options, raising \$1,500. The fair value of the exercised options of \$2,073 was transferred from contributed surplus to share capital.
- (iv) In June 2019, the Company issued 549,804 common shares with a deemed value of \$50,000, on the conversion of a note obligation existing prior to the completion of the Transaction.
- (v) In April 2019, 14,540 common shares were issued on the exercise of finder's warrants, raising \$1,086. The fair value of the exercised warrants of \$5,453 was transferred from warrants reserve to share capital.
- (vi) In April 2019, the Company completed the Transaction resulting in the issuance of 72,181,225 common shares with a deemed value of \$8,505,946, as follows:
  - 44,524,117 common shares issued to existing POSaBIT US shareholders;
  - 1,967,793 common shares issued to subscription receipt holders of the Company;
  - 25,689,315 common shares issued to POSaBIT US preferred shareholders

Contemporaneously, 3,250,000 common shares with a deemed value of \$1,456,746 were issued to existing Foreshore shareholders, in exchange for the issued and outstanding common shares of Foreshore.



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**Options:**

- (vii) In April 2019, the Company completed the Transaction resulting in the issuance of options as follows:
- 12,005,467 options were issued to existing POSaBIT US option holders;
  - 300,000 options were issued to existing Foreshore option holders, in exchange for the issued and outstanding options of Foreshore.
- (viii) In June 2019, 300,000 options with an exercise price of \$0.06 were exercised and 52,619 with an exercise price of \$0.03 were exercised, raising total proceeds of \$37,579.

**Warrants:**

- (ix) In April 2019, the Company completed the Transaction resulting in the issuance of warrants as follows:
- 173,640 warrants were issued to existing POSaBIT US option holders;
  - 43,000 agent options were issued to existing Foreshore agent option holders, in exchange for the issued and outstanding agent options of Foreshore.
- (x) In May 2019, 14,540 agent options with an exercise price of \$0.06 were exercised, raising proceeds of \$872.

**Financings:**

**(i) Note payable**

On May 6, 2019, the Company issued an unsecured note payable (the "Note") in the amount of \$200,000. Starting May 6, 2019, the Note accrues interest at 18% per annum, with interest payable on a quarterly basis. The Note can be repaid in full at any time. There is a 9% penalty if repaid within the first six months of issuance, and no penalty after six months. The Note matures on September 30, 2020.

**(ii) Brokered private placement**

After the reporting date on August 2, 2019, the Company closed on a brokered private placement (the "Financing") by issuing 6,026,597 units at \$0.12 per unit (C\$0.15), raising gross proceeds of \$711,692 (C\$225,998). Each unit consisted on one common share and 1 common-share purchase warrant, exercisable for 2 years after issue at C\$0.30 each. In concert with the Financing, the Company incurred broker fees and expenses of \$97,000 (C\$121,250) and issued 500,000 corporate finance options, exercisable at C\$0.15 each that were immediately exercised.

**Related-party transactions and balances**

The Interim Consolidated Financial Statements include balances and transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. These transactions are measured and recorded at an arm's-length basis, being the amounts agreed to by the related parties.

**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



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Chief Technology Officer and its Chief Revenue Officer. Related-party compensation paid or payable to key management is detailed below:

	3 months ended June 30	
	2019	2018
	\$	\$
Executive Compensation to key managers	134,000	30,000
Licence Fees to PlaceFull Inc.	30,000	30,000
<b>Totals</b>	<b>164,000</b>	<b>60,000</b>

At June 30, 2019, the Company had loans from shareholders amounting to \$nil (December 31, 2018 - \$10,749). These loans are unsecured, interest free and due on demand

During the three months ended June 30, 2019, the Company provided loans to PlaceFull Inc. in the amount of \$29,869 (2018 - \$38,237). These loans were unsecured, interest free and due on demand.

During the three months ended June 30, 2019 (year ended December 31, 2018), related parties subscribed for, or were otherwise issued, the following securities (including those issued by the Company for POSaBIT US shares pursuant to the Transaction):

	2019	2018 (POSaBIT US)
	#	#
Common shares	20,064,567	199,040
Preferred shares (issued for cash)	-	37,500
Preferred shares (issued on conversion of debt)	-	3,641,303
Shares to be issued	-	30,972
<b>Total</b>	<b>20,064,567</b>	<b>3,908,815</b>

***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	82,874,785
Options (Exercisable – 2,477,500)	11,952,848
Warrants	173,640
Agent options	28,460



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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.

Total	Release date					
	October 5, 2019	April 5, 2020	October 5, 2020	April 5, 2021	October 5, 2021	April 5, 2022
18,390,630	3,065,105	3,065,105	3,065,105	3,065,105	3,065,105	3,065,105

