



POSaBIT Systems Corporation

(formerly, Foreside Exploration Partners Corp.)

Interim Management's Discussion and Analysis

Quarterly Highlights

Three months ended September 30, 2019

November 26, 2019

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INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 November 26, 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 nine months ended September 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 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 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 8th 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 September 30, 2019, the Company has a reported working capital deficit of \$1,968,742 (December 31, 2018 – \$329,462), shareholders’ deficiency \$1,175,248 (December 31, 2018 – equity of \$577,510) and has used cash of \$2,569,593 for the nine months ended September 30, 2019, for operating activities. 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 November 26, 2019.

Financial condition

As at September 30, 2019, the Company had assets totaling \$2,625,013 and shareholders’ deficiency of \$1,175,248. This compares with assets of \$4,025,660 and shareholders’ equity of \$577,510, as at December 31, 2018.

During the quarter ended September 30, 2019, the Company’s net assets decreased by \$179,631, the result of a decrease in assets of \$351,349, offset by an increase in liabilities of \$171,718. The decrease in assets was the result of a decrease in cash of \$316,315 (cash used for operating activities of \$803,422, plus cash used for investing activities of \$132,966 offset with cash provided from financing activities of \$620,073), receivables decreased by \$167,760, digital asset by \$8,510, due from related parties by a de minimis \$382 and intangible assets by \$20,813



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(purchases of \$74,726 less amortization of \$95,539). These decreases were offset with increases to prepaid expenses of \$106,350, finished inventory of \$5,851, sales taxes recoverable (HST) of \$521 and equipment of \$49,709 (purchases of \$58,239 less depreciation and amortization of \$8,530).

The decrease in liabilities of \$171,718, resulted solely from a decrease in accounts payable and accrued liabilities.

Corporate activities

Operations

POSaBIT continued its revenue growth in 2019 with an increase of 136% in Q1 through Q3 over the same period in 2018. This growth was driven by continued expansion into Washington, Nevada, California, Colorado, Oklahoma and Arizona for both the POSaBIT payments and point of sale business. Overall transactional sales have increased from \$11.7M USD at this time last year to over \$42.6M, in 2019. Net losses decreased 47% in Q3 over Q2 2019 this year due to an increase in overall revenue as well as a decrease in operating expenses from scaled operations. 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. Point of sales growth in Q3 was primarily driven by strong sales in Washington State, California and Colorado.

Issuance of securities

Common shares:

- (i) On October 5, 2019, 3,065,105 common shares were released from escrow pursuant to the policies of the CSE.
- (ii) In September 2019, the Company issued 175,398 common shares on the exercise of options, raising \$5,000. The fair value of the exercised options of \$3,773 was transferred from contributed surplus to share capital.
- (iii) In August 2019, the Company completed a private placement (the "**Financing**") with the issuance of 6,026,597 units (a "**Unit**"), raising gross proceeds of \$711,692. Each Unit consisted of one common share of the Company and 1 share purchase warrant (a "**Warrant**").

In concert with completing the Financing, the Company incurred \$119,800 in cash in incurred \$60,000 of corporate finance costs that were settled with the issuance of 500,000 common shares. The cash costs incurred have been split between common shares (\$60,140) and warrant reserve (\$59,660) on the same basis as the fair value of the warrants.

Options:

- (iv) In October 2019, the Company issued 1,724,500 options to participants of the Company's stock option plan. The options vest over varying periods, have a 10-year maturity and were issued with an exercise price of C\$0.11.
- (v) In September 2019, 175,398 options were exercised (see (i) above), raising proceeds of \$5,000.
- (vi) In July 2019, 711,456 options expired. The average exercise price of the expired options was \$0.04.



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Warrants:

- (vii) In August 2019, pursuant to the Financing, the Company issued 6,026,597 Warrants. Each Warrant is exercisable into one common share for \$0.30, for a period of 2 years. The fair value of \$210,919 of the issued warrants was estimated using the Black-Scholes option pricing model with the following variables: Term of 10 years; share price on issuance of C\$0.30, risk-free interest rate of 1.46%, cumulative volatility of 106.07% and dividends of \$nil.

Update of forward-looking information

In its press release dated November 26, 2019, the Company updated the following items in its financial outlook to the end of 2019:

1. Revenue growth has been reduced to approximately 70% to 90%, year-over-year from previously reported expectations of growth of 80% to 100%. The decreased change in revenue growth is attributable to the average store processing less than the projected \$350,000 to \$500,000 a year. Actual data along with our forecast is now assuming stores to process between \$300,000 to \$450,000 a year.
2. Cost of sales has been reduced to approximately \$3.5M to \$4.0M for 2019, down from previous estimates of \$5.5M to \$6M. The expected decrease results from decreases in both processing fees paid by POSaBIT and overall hosting costs.
3. Transaction sales growth is now estimated at approximately 150% year-over-year, to approximately \$55M. This compares to previous estimates of a 400% year-over-year increase, to approximately \$100M. The estimate now assumes average store processing between \$300,000 and \$450,000 using POSaBIT's service.
4. The expansion of the Company's services to an additional 7 to 8 recreational and medical states is a revision from its previous expectations of an additional 5 recreational states and 10 medical states. Prior expectations anticipated the addition of 4 states during the third quarter of 2019 and 6 states during the final quarter of 2019. The third quarter actually saw the addition of 2 states to the Company's footprint and as such it has revised its fourth quarter forecast to the addition of 2 additional states.

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

	3 months ended	
	September 30	
	2019	2018
	\$	\$



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Executive Compensation to key managers	134,000	94,000
Licence Fees to PlaceFull Inc.	31,010	44,000
Totals	165,010	138,000

At September 30, 2019, the Company made loans to shareholders/employees amounting to \$122,277 (December 31, 2018 - \$10,749). These loans are unsecured, interest free and due on demand

Outstanding securities

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

Security	Number outstanding
Common shares	83,050,183
Options (exercisable – 7,845,334)	12,790,494
Warrants	6,200,237
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				
	April 5, 2020	October 5, 2020	April 5, 2021	October 5, 2021	April 5, 2022
15,325,525	3,065,105	3,065,105	3,065,105	3,065,105	3,065,105

