



# **POSaBIT Systems Corporation**

**Interim Management's Discussion and Analysis**

**Quarterly Highlights**

**Three months ended September 30, 2021**

**(reported in US Dollars)**

**November 30, 2021**

# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 2021 (Reported in US Dollars)

---

*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 November 30, 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 and nine months ended September 30, 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).*

---

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**  
**QUARTERLY HIGHLIGHTS**  
**Three months ended September 30, 2021**  
**(Reported in US Dollars)**

---

**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 September 30, 2021, the Company has a reported working capital of \$2,752,943 (December 31, 2020 – deficit of \$2,236,339) and has a shareholders' deficiency \$7,210,252 (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 November 29, 2021. Any reference to “note” in this MD&A, refers to the corresponding note in the Consolidated Financial Statements.

**Option and warrant exercises**

During the period from July 1, 2021, through the date of this MD&A, 17,211,666 warrants and finder warrants were exercised raising proceeds of \$3,277,150.

During the same period, 220,000 options were exercised raising proceeds of \$24,920.

**Conversions**

During the period from July 1, 2021, through the date of this MD&A, \$155,000 in face-value of the Convertible Notes (note 16) were converted to equity, with the issuance of 1,623,671 common shares.



# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 2021 (Reported in US Dollars)

### Financial condition

As at September 30, 2021, the Company had assets totaling \$9,149,137 and shareholders' deficiency of \$7,210,252. This compares with assets of \$3,685,719 and shareholders' deficiency of \$3,056,985, at December 31, 2020.

During the quarter ended September 30, 2021, the Company's net assets decreased \$5,720,206, the result of an increase in liabilities of \$6,536,841, partially offset by an increase in assets of \$816,635. The increase in liabilities was primarily driven by a non-cash increase of \$7.9 million in the value of the derivate liability, as noted below and in note 14.

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

Item	Change	Explanation of change
	\$	
Cash	541,961	Cash used for operating activities of \$2,188,220 plus cash used for investing activities of \$54,491 offset by cash provided from financing activities of \$2,784,433.
Receivables and sales taxes recoverable	(14,291)	Receivables decreased with increased collection efforts and procedures.
Prepaid expenses and deposits	127,754	The increase is the result of normalized annual expenditures and the recording of monthly expenses.
Digital assets	424	Normal mark-to-market change.
Due to/from related parties	32,862	Details for key management disclosed in note 18 of the Consolidated Financial Statements or in the <i>Transactions with related parties</i> section of this MD&A.
Inventories	134,037	Finished inventory increased as the Company geared up for increased requirements resulting from increased sales.
Equipment	(6,112)	Approximately \$55,000 of purchases offset by depreciation of approximately \$61,000
<b>Change in assets, increase</b>	<b>816,635</b>	
Accounts payable and accrued liabilities	(1,290,804)	Decrease in payables due to normal operational variation in payment timing.
Government loan	5	The increase is due to accretion for the quarter of \$2,198 less payments made of \$2,193.
Derivative liability	7,851,629	Change in fair value of the remaining derivative liability for the quarter. Amount is net of fair value related to portion converted (note 14) for the quarter, being \$33,000 (face value of \$50,000).
Convertible notes	(23,989)	Conversion of \$50,000 face-value note less interest accretion of \$21,000 less fair value change of \$5,000
<b>Change in liabilities, increase</b>	<b>6,536,841</b>	
<b>Decrease in net assets</b>	<b>(5,720,206)</b>	



# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 2021 (Reported in US Dollars)

### Results of operations

Selected financial results of operations are summarized below:

	3 months ended September 30,			
	2021	2020	Year-over-year change Favourable/(Unfavourable)	
	\$	\$	\$	%
Revenue	<b>6,364,107</b>	2,329,878	4,034,229	173
Cost of goods sold	<b>(4,935,039)</b>	(1,754,779)	(3,180,259)	(181)
<b>Gross margin</b>	<b>1,429,068</b>	575,099	853,970	148
Operating expenses, excluding forex	<b>(2,205,094)</b>	(688,078)	(1,517,016)	(220)
Forex	<b>1,893,525</b>	44,974	1,848,551	4,110
	<b>1,117,499</b>	(68,006)	1,185,505	1,743
Other income (expense)	<b>(8,020,940)</b>	(32,470)	(7,988,470)	(24,603)
<b>Loss</b>	<b>(6,903,441)</b>	(100,476)	(6,802,965)	(6,771)

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.

### 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.

	Current year quarter-over-quarter				Year-over-year			
	Sept. 30, 2021	June 30, 2021	Change Fav/(Unfav)		Sept. 30, 2021	Sept. 30, 2020	Change Fav/(Unfav)	
	\$	\$	\$	%	\$	\$	\$	%
Revenue	<b>6,364,107</b>	4,958,332	1,405,775	28	<b>6,364,107</b>	2,329,878	4,034,229	173
Cost of goods sold	<b>(4,935,039)</b>	(3,642,732)	(1,292,307)	(36)	<b>(4,935,039)</b>	(1,754,780)	(3,180,259)	(181)
Gross margin (deficit)	<b>1,429,068</b>	1,315,600	113,468	9	<b>1,429,068</b>	575,098	853,970	149
Adjusted operating costs	<b>(1,867,725)</b>	(1,108,374)	(759,351)	(69)	<b>(1,867,725)</b>	(580,147)	(1,287,578)	(222)
Adjusted other costs (income)	<b>(70,128)</b>	(22,183)	(47,945)	(216)	<b>(70,128)</b>	(37,833)	(32,295)	(85)
<b>Adjusted EBITDA</b>	<b>(508,788)</b>	185,043	(693,828)	(375)	<b>(508,785)</b>	(42,882)	(465,903)	(1,086)



# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 2021 (Reported in US Dollars)

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

	Sept. 30, 2021	June 30, 2021*	Sept. 30, 2020
	\$	\$	\$
Loss, as reported	(6,903,441)	(878,232)	(100,476)
Deduct foreign exchange gains, as reported	(1,893,525)	(206,858)	(44,974)
Add back share-based compensation, as reported	276,766	139,828	21,376
Add back/(deduct) change in fair values of financial instruments, as reported	(424)	1,843	(199)
Add back change in expected credit losses, as reported	5,725	7,406	12,251
Add back change in fair value of derivative liability, as reported	7,856,498	1,038,498	-
Add back loss on disposal of assets, as reported	-	-	733
Deduct gain on disposal of discontinued operations, as reported	112,500	-	-
Add back amortization and depreciation, as reported	60,603	53,094	86,555
Add back/(deduct) finance costs, as reported	(23,487)	29,464	(18,148)
<b>Adjusted EBITDA</b>	<b>(508,785)</b>	185,043	(42,882)

\*Amounts reported in the Company's interim consolidated financial statements for the three and nine months ended September 30, 2021.

As mentioned above, POSaBIT delivered record-setting sales in Q3 2021. Revenue grew between Q3 2021 vs. Q3 2020 by 173% increasing by over \$4.0M quarter-over-quarter. Similarly, growth in revenues for the third quarter of 2021 over the previous quarter was 28% increasing by over \$1.4M. Gross margin dollars increased \$853,970 and \$113,468 between Q3 2021 versus Q3 2020 and Q3 2021 versus Q2 2021, respectively. Adjusted EBITDA was \$(508,788) versus \$185,043 in Q2 2021 and \$(42,882) in Q3 2020, respectively. Growth drivers include continued strong sales due to POSaBIT's contactless payment system and the continued increase in stores using POSaBIT for both Payments and Point of Sale. POSaBIT did see negative adjusted EBITDA for the quarter ended September 30, 2021, but the Company has determined there is more value to be created by investing our profits in growing market share than reporting near-term marginal profitability.

POSaBIT is updating its forward guidance as provided in its second quarter 2021 earnings release. The Company now forecasts for 2021 total revenue growth of 158% over 2020, to approximately \$19M to \$20.5M. Transactional sales of \$350M to \$375M and gross margin of 28% - 32% for the full year ending 2021 will remain unchanged.

POSaBIT is providing initial 2022 revenue guidance of \$36M to \$39.5M, which at the midpoint reflects 91% year over year growth in 2022.

### ***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 license fees paid to PlaceFull Inc., a company in which the CEO owns significant shareholdings.



**POSaBIT Systems Corporation**  
**INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**QUARTERLY HIGHLIGHTS**  
**Three months ended September 30, 2021**  
(Reported in US Dollars)

**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 September 30,</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Executive compensation to key managers	<b>284,602</b>	134,000
License fees to PlaceFull Inc.	<b>30,000</b>	30,000
<b>Totals</b>	<b>314,602</b>	164,000

As at September 30, 2021, PlaceFull Inc., owed the Company \$223,720 (December 31, 2020 - \$196,626). The loan is unsecured, interest free and due on demand.

During the three months ended September 30, 2020, the Company provided loans (net of repayments) to PlaceFull Inc. in the amount of \$17,604 (2020 - \$21,476). These loans were 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	131,893,876
Options (exercisable – 9,442,941)	15,841,267
Warrants	6,265,731
Agent options	169,915
<b>Total fully diluted capitalization</b>	<b>154,170,789</b>

***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>April 5, 2022</b>
3,065,105

