



# **POSaBIT Systems Corporation**

**Interim Management's Discussion and Analysis**

**Quarterly Highlights**

**Three months ended September 30, 2023**

**(reported in US Dollars)**

**November 29, 2023**

# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS

Three months ended September 30, 2023  
(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 November 29, 2023. 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, 2023 and 2022 (the “Interim Consolidated Financial Statements”) and the Company’s audited consolidated financial statements for the years ended December 31, 2022 and 2021 (the “Audited Consolidated Financial Statements”). Both the Audited Consolidated Financial Statements and the Interim 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 Interim MD&A has also been prepared by management and is consistent with the data contained in the Interim Consolidated Financial Statements. Additional information relating to the Company can be found on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca) 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 QUARTERLY HIGHLIGHTS Three months ended September 30, 2023 (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 involves 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 under the trading symbol “**PBIT**”.

The Company's head office is located at 15 Lake Bellevue Dr., Suite 101, Bellevue, WA 98005. Its registered address in Canada is 250 Howe Street, 20th floor, Vancouver, British Columbia V6C 3R8.

The Interim Consolidated Financial Statements were authorized for issuance by the Board of Directors of the Company on November 29, 2023. Any reference to “**note**” or “**notes**” in this MD&A, refers to the corresponding note(s) in the Interim Consolidated Financial Statements.

### Impairment of Intangible Assets

As reported in its MD&A Quarterly Updates for the three months ended June 30, 2023, the Company acquired 100% 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 is a leading provider of compliant, sustainable payment and bank compliance solutions for high-risk industries, including cannabis businesses.

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

<b>Estimated fair value</b>	<b>\$</b>
Cash and cash equivalents	105,825
Inventory	237,147
<b>Debt-free working capital acquired</b>	<b>342,972</b>
Contracts	5,100,000
Technology	310,000
Tradename	30,000
<b>Identifiable intangible assets acquired</b>	<b>5,440,000</b>
<b>Goodwill</b>	<b>1,733,254</b>
<b>Purchase price</b>	<b>7,516,226</b>



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### Consideration:

	\$
Cash	1,104,000
Cash holdback	500,000
<b>Total cash</b>	<b>1,604,000</b>

<b>Equity:</b>	<b># of shares</b>	<b>\$</b>
Common shares issued on closing	4,968,584	4,000,000
Equity Holdback (to be released 6 months after closing)	621,073	476,731
Equity Holdback (to be released 1 year after closing)	621,073	454,545
Contingent Consideration (to be released 3 months after closing)	828,512	669,678
Contingent Consideration (to be released 1 year after closing)	413,635	311,272
<b>Total equity</b>	<b>7,452,877</b>	<b>5,912,226</b>
<b>Total consideration</b>		<b>7,516,226</b>

During the current quarter, the Company recorded impairments of \$5,100,000 to its Contract and \$60,000 to its Technology intangible assets, as a result of Hypur's payment processor terminating its processing activity. The Company engaged with the merchants acquired through the Hypur Acquisition, moving them to alternative POSaBIT processing programs. The Company expects to be able to move a large percentage of the acquired merchants to alternative processing solutions.

The Company is in discussions with Hypur as to the amount, if any, of Holdback (cash and equity) and Contingent Consideration that will be paid.

### **Changes to Company securities**

The Company issued the following securities during the three months ended September 30, 2023:

#### **Common shares**

In September 2023, 240,050 common shares were issued upon the exercise of the same number of options. Proceeds of the exercise amounted to \$25,509.

After the reporting period in October 2023, 2,598,187 common shares were issued upon the conversion of \$225,000 face-value of convertible debt.

#### **Options**

As noted above, 240,050 options with varying exercise prices and expiration dates, were exercised.

### **Financial condition**

As at September 30, 2023, the Company had assets totaling \$20,379,615 and shareholders' equity of \$7,040,301. This compares with assets of \$17,996,874 and shareholders' equity of \$8,223,022, at December 31, 2022.



# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS

Three months ended September 30, 2023  
(Reported in US Dollars)

During the quarter ended September 30, 2023, the Company's net assets decreased by \$7,236,951 as a result of a decrease in assets of \$7,405,470 offset with a decrease in liabilities of \$168,519. The majority of the decrease in assets related to the impairment of intangible assets, as noted above.

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

Item	Change	Explanation of change
	\$	
Cash	(781,579)	Cash used for operating activities of \$774,088 plus cash used for financing activities of \$7,491.
Receivables	(1,482,710)	The decrease mainly resulted from the legal settlement (decrease of \$1,635,484) offset by increases of \$152,774 in operating receivables.
Sales taxes recoverable	725	The increase is related to the Company's net HST claim.
Prepaid expenses and deposits	(214,660)	The decrease is the result of normalized annual expenditures and the recording of monthly expenses.
Inventories	141,551	Inventory purchases of \$266,296, offset by \$124,745 sold/rented.
Equipment	(8,908)	Depreciation charges for the quarter.
Revenue-generating equipment	(52,934)	Depreciation charges for the quarter.
Right-use-assets	161,943	Additions of \$182,185 less depreciation of \$20,242.
Contract asset	(126,250)	Accreted to revenue and interest income for the period.
Intangible assets	(5,042,648)	Impairment of \$5,160,000 less amortization reversal (Q223 amortization for intangible assets subsequently impaired) of \$121,639 less amortization for the quarter of \$4,287
<b>Change in assets, increase</b>	<b>(7,405,470)</b>	
Accounts payable and accrued liabilities	140,396	The decrease is due in part as a result of the legal settlement (decrease of 720,608) offset by increases on operating payables of \$580,210.
Credit facility	(15,459)	Increase is accretion for the quarter.
Derivative liability and convertible notes	198,289	Decrease is related to the change in fair value of the remaining derivative liability for the quarter of \$395,000 less interest accretion for the convertible notes of \$196,711.
Government loan	(2,191)	Increase is related to the accretion for the quarter.
Lease liability	(152,516)	Addition of \$182,185 plus interest expense for the quarter of \$3,331 plus lease payments of \$33,000.
<b>Change in liabilities, decrease</b>	<b>168,519</b>	
<b>Decrease in net assets</b>	<b>(7,236,951)</b>	

### Results of operations

Selected financial results of operations are summarized below:



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## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 2023 (Reported in US Dollars)

	Three months ended September 30,			
	2023	2022	Year-over-year change Favorable/(Unfavorable)	
	\$	\$	\$	%
Revenue	13,586,420	10,330,937	3,255,483	32
Cost of goods sold	(10,400,577)	(7,436,410)	(2,964,167)	(40)
<b>Gross margin</b>	<b>3,185,843</b>	<b>2,894,527</b>	<b>291,316</b>	<b>10</b>
Operating expenses, excluding forex	(3,694,741)	(3,754,118)	59,377	2
Forex	249,495	866,885	(617,390)	(71)
Loss before items below	(259,403)	7,294	(266,697)	(3,656)
Other income (expense)	(7,231,013)	(1,231,614)	(5,999,399)	(487)
<b>Loss</b>	<b>(7,490,416)</b>	<b>(1,224,320)</b>	<b>(6,266,096)</b>	<b>(512)</b>

POSaBIT's acquisition of Hypur contributed 26% toward quarterly revenue growth for the year-over-year, resulting in 23% organic revenue growth quarterly year-over-year for POSaBIT. The Company continues to see opportunities with increased store volume served by POSaBIT payments and POSaBIT Point of sales, The number of states where cannabis is legal in the United States continues to grow and POSaBIT is poised to capitalize on its past investments in internal sales, and marketing. POSaBIT views that the material investments to support its business have been made and is focusing its efforts on accelerating customer acquisition.

As a result of industry wide activity tied to our payment processing operations, POSaBIT is withdrawing its revenue, gross profit dollar and adjusted EBITDA guidance for 2023. The Company is mitigating processing disruptions by moving merchants to alternative POSaBIT payment options.

### 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, 2023	June 30, 2023	Change Fav/(Unfav)		Sept. 30, 2023	Sept. 30, 2022	Change Fav/(Unfav)	
	\$	\$	\$	%	\$	\$	\$	%
Revenue	13,586,420	13,474,295	112,125	1	13,586,420	10,330,937	3,255,483	32
Cost of goods sold	(10,400,577)	(10,755,001)	354,424	3	(10,400,577)	(7,436,410)	(2,964,167)	(40)
Gross margin (deficit)	3,185,843	2,719,294	466,549	17	3,185,843	2,894,527	291,316	10
Adjusted operating costs	(3,300,597)	(4,992,812)	1,692,215	34	(3,300,597)	(3,184,892)	(115,705)	(4)
Adjusted other costs	82,132	80,903	1,229	2	82,132	-	82,132	-
<b>Adjusted EBITDA</b>	<b>(32,622)</b>	<b>(2,192,615)</b>	<b>2,159,993</b>	<b>99</b>	<b>(32,622)</b>	<b>(290,365)</b>	<b>257,743</b>	<b>89</b>

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



# POSaBIT Systems Corporation

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS QUARTERLY HIGHLIGHTS Three months ended September 30, 2023 (Reported in US Dollars)

	Sept. 30, 2023	June 30, 2023	Sept. 30, 2022
	\$	\$	\$
Loss, as reported	(7,490,416)	(1,827,831)	(1,224,320)
Add back/(deduct) foreign exchange gains, as reported	(249,495)	123,121	(866,885)
Add back share-based compensation, as reported	482,345	761,642	517,937
Add back/(deduct) amortization and depreciation, as reported	(88,201) <sup>1</sup>	156,986	51,289
Add back/(deduct) change in expected credit losses, as reported	21,732	(356)	33,575
Add back finance costs, as reported	95,073	87,040	19,827
Add back/(deduct) change in fair value of derivative liability, as reported	(395,000)	(1,645,834)	1,018,756
Add back impairment charges, as reported	5,160,000	-	-
Add back interest accretion, as reported	202,232	106,839	51,228
Add back income taxes, as reported	-	192,880	-
Add back litigation settlement, as reported	2,212,594	-	-
Add back loss on disposal of assets, as reported	-	-	61,769
Add back/(deduct) transaction costs, as reported	16,254	(7,413)	46,459
Add back/(deduct) other income, as reported	260	(139,689)	-
<b>Adjusted EBITDA</b>	<b>(32,622)</b>	<b>(2,192,615)</b>	<b>(290,365)</b>

<sup>1</sup>Negative amount reflects the reversal of amortization taken in Q223 for impaired intangible assets.

In Q3 2023 compared to Q3 2022, revenue experienced significant growth, increasing 32%. During the same period, gross margin dollars also increased, rising by \$0.29 million. These results were primarily driven by the continued adoption of POSaBIT's Point of Sale and cashless payment system and the Hypur acquisition.

In Q3 2023, the Company saw the benefit from the Hypur acquisition, which contributed \$0.9 million in revenue and \$0.18 million in gross margin dollars during the quarter. Additionally, we continue to focus our sales efforts on large multi-state and super-state merchants, which are defined as those with over 10 locations under a single brand. However, the onboarding process for PIN Debit merchants, which we have been prioritizing, takes longer compared to other payment products offered by the company.

In Q3 2023, revenue increased modestly by \$0.11 million (or 1%) compared to the previous quarter (Q2 2023).

Adjusted EBITDA in Q3 2023 was recorded as a loss of \$(32,622), compared to a loss of \$(290,365) in Q3 2022 and a loss of \$(2,192,615) in Q2 2023.

### ***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**



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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:

September 30,	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Executive Compensation to key managers	639,862	371,268	1,925,020	854,782
Share-based compensation to key managers	290,702	-	1,290,737	595,880
Totals	930,564	371,268	3,215,757	1,450,662

### **Litigation**

In August 2022, the Company was served a statement of complaint, filed with the Southern District of Florida, citing contractual dispute between parties. In November 2022, the Company filed a counterclaim. The Company has a receivable and payable recorded on its statement of financial position in relation to this dispute. The amounts have not been adjusted as the estimated outcome of the case is undeterminable. In July 2023, the Company engaged in an arbitration session executing a Settlement Agreement and Mutual Release. See below "Legal Settlement" for the financial results of the legal settlement.

In December 2022, the Company was served a statement of complaint, filed with the Washington District Court, citing contractual dispute between parties. The Company has a receivable and payable recorded on its statement of financial position in relation to this dispute. The amounts have not been adjusted as the estimated outcome of the case is undeterminable. The Company cannot reasonably predict the likelihood or outcome of the claim and does not believe that adverse decisions regarding any settlement or any amount which may be required to be paid will have a material effect on the financial condition or future results of operations.

### **Legal settlement**

The Company was served a statement of complaint in August 2022 (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 with prejudice. 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	(239,372)
<b>TOTAL COST OF SETTLEMENT</b>		<b>(2,212,594)</b>



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***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	152,621,961
Options (exercisable – 13,420,499)	19,803,465
Restricted share units	2,970,664
Warrants	13,901,644
Advisor warrants	300,000
Total fully-diluted capitalization	187,159,497

The Company also has \$565,000 of face-value convertible notes with a maturity date of December 31, 2023, outstanding as of the date of this MD&A. The convertible notes have a conversion price of CAD \$0.12. The last day for converting the outstanding convertible notes is December 1, 2023. Assuming the conversion of all the outstanding convertible notes, the Company would issue 6,365,666 common shares in settlement of the conversions (based on an exchange rate of Using C\$1.352/US\$1.00).

