Management's Discussion and Analysis

Years Ended December 31, 2020 and 2019

The following Management's Discussion & Analysis ("MD&A") of Payfare Inc. (the "Company" or "Payfare") for the years ended December 31, 2020 and 2019 has been prepared to provide material updates to the business operations, liquidity, and capital resources of the Company.

This MD&A has been prepared in compliance with Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019 ("Annual Financial Statements"), together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Annual Financial Statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee. This MD&A is dated March 31, 2021 and the information contained herein is presented as of March 31, 2021, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the board of directors of the Company (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Forward-Looking Statements

Certain sections of this MD&A may contain "forward-looking statements" within the meaning of applicable securities legislation. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words. Forward-looking statements may relate to the Company's future financial conditions, results of operations, plans, objectives, performance, or business developments. Forward-looking statements are necessarily based upon number of estimates and assumptions that, while considered reasonable by the Company as of the date of such statements, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements.

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. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. All of the forward-looking statements made in this MD&A are qualified by these cautionary statements and those made in our other filings with applicable securities regulators in Canada. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law. Investors should consult the "Risk Factors" section of Payfare's final prospectus dated March 15, 2021, which is available under Payfare's profile on SEDAR at www.sedar.com.

Corporate Overview

The Company is a Toronto based fintech company providing mobile banking solutions for the rapidly emerging on-demand economy. Payfare's technology solutions and partnership with MasterCard, Visa, Star and Accel networks offers financial inclusion and empowerment to next-generation workers by providing a full-service mobile bank account with instant access to their earnings.

Founded in 2015, the Company has launched an instant payment and mobile banking solutions to employees of some of North America's largest employers. The Company generates revenue by collecting network interchange fees from payment networks on cardholder's transactions and user activity fees collected from gig workers on use of mobile banking wallet and payment cards for ATM withdrawals, money transfers and other transactions.

On March19, 2021, the Company announced the successful completion of its initial public offering (the "IPO") of 10,900,000 common shares (on post consolidation basis) at the price of $6.00 per share for aggregate gross proceeds of $65,400,000. On March 19, 2021, the Company common shares started trading on the Toronto Stock Exchange (the "TSX") under the trading symbol "PAY".

The head office, principal address and registered office of the Company is located at550 Burrard Street, Suite 2300, Vancouver, BC V6C 2B5.

Milestones for the 2021 Financial Year

For fiscal 2021, the Company has set out to achieve certain milestones. These milestones include:

- Launch a new program with a new or existing gig platform outside of the United States and Canada
- Diversify our customer base by expanding to new verticals outside of the gig economy
- Continue to increase our year-over-year revenue and at least double our annual revenue as compared to fiscal 2020

Management will use these milestones to measure the Company's progress and will update these milestones and create new milestones during fiscal 2021 and going forward.

Performance of Payfare

Key Performance Indicators

The key performance indicators for Payfare are revenue growth, gross profit, EBITDA, adjusted EBITDA and net income.

The success of the Company will be measured by revenue growth. Revenue growth is a function of user adoption as well as average revenue per user ('ARPU"). Revenue growth will be dependent on the Company launching new products and successfully marketing their program to users on existing platforms as well as landing new customers.

The Company is currently not achieving positive gross profit as it incurs a lot of one-time costs to bring new programs on board and deals with certain minimum costs related to the networks on which we operate. As we continue to increase our revenue our gross profit will improve.

Management believes that EBITDA and adjusted EBITDA is a measure of how efficiently and effectively the Company's business is running. Net income is also viewed as an important measure for determining the value created for shareholders.

Measurement

Below under "Quarterly Results" and Results of Operations" are two tables the Company uses to assess performance. The first table presents key consolidated results for the last eight quarters. The second table sets our consolidated results for the years ended December 30, 2020 and December 31, 2019.

Quarterly Results

	2020 Quarter ended				2019 Quarter ended			
In CAD $ (except stated)	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**
Revenue	$ 3,452,292	$ 3,285,643	$ 2,406,165	$ 4,305,413	$ 3,098,111	$ 1,160,971	$ 1,032,532	$ 1,018,028
Costs of services (1)	3,138,783	3,551,577	2,832,525	4,382,962	3,426,872	1,535,413	1,428,312	708,296
Gross profit (1)	313,509	(265,934)	(426,360)	(77,549)	(328,761)	(374,442)	(395,780)	309,732
Net loss	(5,731,106)	(6,290,659)	(6,891,150)	(7,411,127)	(6,860,515)	(9,265,046)	(6,871,654)	(905,561)
Net loss per share (2)	$ (0.18)	$ (0.20)	$ (0.23)	$ (0.26)	$ (0.27)	$ (0.38)	$ (0.30)	$ (0.05)
Key performance indicators								
ARPU (1)	$ 23.04	$ 25.66	$ 23.84	$ 17.41	$ 17.43	$ 21.70	$ 26.80	$ 27.34
Ending active users (#) (1)	54,789	46,228	36,555	74,853	75,604	20,971	12,938	12,871

(1) See "Definitions - IFRS and Additional GAAP Measures"

(2) Payfare consolidated its outstanding common shares on the basis of 6.2771 pre-consolidation common shares for every one (1) post-consolidation common share. Net loss per share reflects post consolidation amounts for all periods.

Results of Operations

Comparison of the year ended December 31, 2020 and 2019.

	Year end December 31	
In CAD $ (except stated)	**2020**	**2019**
Revenue	$ 13,449,513	$ 6,309,642
Costs of services (1)	13,905,847	7,098,893
Gross profit (1)	(456,334)	(789,251)
Share-based compensation	8,562,325	4,926,531
Salaries and related costs	3,433,892	5,290,852
Other operating expenses	2,956,384	3,277,733
Finance costs	9,874,731	8,572,441
Amortization and depreciation	1,139,125	1,045,968
Net loss	(26,324,042)	(23,902,776)
Net loss per share (2)	$ (0.87)	$ (1.03)
Key performance indicators		
ARPU (1)	$ 21.51	$ 20.55
Ending active users (#) (1)	54,789	75,604

(1) See "Definitions - IFRS and Additional GAAP Measures"

(2) Payfare consolidated its outstanding common shares on the basis of 6.2771 pre-consolidation common shares for every one (1) post-consolidation common share. Net loss per share reflects post consolidation amounts for all periods.

Revenue

Revenue increased 113% to $13,449,513 for the year ended December 31, 2020 compared to $6,309,642 for the same period in 2019. The revenue increase of $7,139,871 was mainly attributable to:

- Higher revenue of $8,909,480 due to launch of Lyft program in Q3 2019. The change in revenue is primarily due to the significant ramp-up of new drivers in Q4 2019 resulting from the national roll-out of the program. The 2020 Lyft revenues benefited from the full-year impact of this base compared to the limited Q4 2019 impact in the prior year. Despite the increase in Lyft revenues, growth in the user base was negatively impacted to Covid-19 related shutdowns in the United States during 2020.

- Higher revenue of $275,108 due to the launch of the DoorDash program in the United States ("US") in Q4 2020. The increase in revenue is mainly driven by customer support provided to growing customer base due to increased onboarding of new drivers during the year. We will start to see the full impact of the DoorDash program launch in the US when the program is launched to all US DoorDash drivers by the end of Q1 2021.

- The revenue increases discussed above, were partially offset by a decline in revenue of $2,052,458 from the Uber program mainly due to Covid-19 factors that lead to a reduction in the average number of active drivers and lower fees earned from point-of-sale transactions and other activity based fees (e.g. e-transfer fees, ATM fees).

- 2020 ARPU increased by 5% to $21.51 as the lower active user base earned more per user as the supply of drivers declined during the same period.

- In Q3/Q4 2021, we expect to see revenue growth from our ride-share programs as governments authorities in both the US and Canada ease Covid-19 related restrictions. In the interim, we expect to see revenue growth from our DoorDash US program after it is rolled out nationally by approximately the end of Q1 2021.

Cost of services

The cost of services was $13,905,847 for the year ended December 31, 2020 compared to $7,098,893 for the same period in 2019. The increase in cost of services of $6,806,954 (96%) is mainly due to higher network, payment processor, card production and other set-up charges related to the launch of the Lyft and DoorDash programs and increase in customer support expenses to service the Company's growing customer base driven by national launch and ramp-up of new programs starting Q4 2019.

We expect to see improved margins in 2021 once we repay all our short-term debts (expected by the end of Q1 2021), normalize for one-time set-up costs of new programs and are able to achieve scale in our active user count.

Gross profit

Gross profit increased to $(456,334) for the year ended December 31, 2020 compared to a gross profit of $(789,251) for the same period in 2019. The gross profit was higher by $332,917 due to changes in revenue and cost of services described above.

Share-based compensation

Share based compensation was $8,562,325 for the year ended December 31, 2020 compared to $4,926,531 for the same period in 2019. Higher stock options expenses of $3,220,078 were mainly due to shorter vesting terms on new grants issued in 2020 and restriking of options under mandatory options exercise program,, higher shares costs associated with issuances to employees of $589,779 under mandatory share purchase program in lieu of salary and issuances to existing shareholders of $494,042 with no consideration due to non-occurrence of liquidity event partially offset by accelerated vesting of RSU on settlement of claim with former employee in prior year.

Salaries and related costs

Salaries and related costs were $3,433,892 for the year end December 31, 2020 compared to $5,290,852 for the same period in 2019. The change of $1,856,960 is attributable to the government supported wage subsidies and mandatory share purchase and options exercise program in lieu of a portion of salary that most employees participated in during the year.

Other operating costs

Other operating expenses were $2,956,384 during the year ended December 31, 2020 compared to $3,277,733 for the same period in 2019. The decline of $321,349 was mainly due to lower external recruitment agency costs of $105,979 due to lower hiring while Covid-19 restrictions were imposed, decrease in marketing agency costs of $106,820 due to contract termination of external agency, lower travel and entertainment expense of $183,990 due to Covid-19 related factors, lower customer acquisition costs of $50,109, decline in restructuring costs of $559,170 associated with settlement of legal claims with former employees in 2019, decrease in professional and legal costs of $846,918 driven by lower going public and acquisition costs compared to the prior year and hiring of external developers for launch of Lyft program in 2019. These costs savings were partly offset by increased insurance costs of $367,288 due to launch of new customer programs, higher bad debts of $346,656 due to cardholder's settlements/ claims and recovery of previously written-off accounts receivable balances of $824,000 in 2019.

Finance costs

For the year ended December 31, 2020, finance costs increased to $9,874,731 compared to $8,572,441 for the same period in 2019. The change of $1,302,290 was mainly due to higher non-cash amortization costs of $1,387,378 related to shares and warrants issued to the lenders and an increase in short-term debt of $5,000,000 driven by bridge loan. This was used to fund the continued build-out of our platform and day to day operating expenses.as the Company launched its new DoorDash dasher program in Q4 2020. This was partially offset by loan repayments during 2019-20.

Finance costs in future periods will be lower once we repay all our debts (expected by the end of Q1 2021).

Amortization and depreciation

For the year ended December 31, 2020, amortization of intangible and tangible assets was $1,139,125 compared to $1,045,968 the same period in 2019. The higher costs were mainly attributed to an increase in development activities of internally generated intangible assets related to the Company's mobile banking and instant payment solution for the new DoorDash program.

Net loss

Net loss was ($26,324,042) for the year ended December 31, 2020 compared to a net loss of ($23,902,776) for the same period in 2019. The increase in net loss of ($2,421,266) is due to the factors described above.

Net loss per share

Basic and diluted net loss per share was ($0.87) for the year ended December 31, 2020 compared to net loss per share of ($1.03) for the same period in 2019. The change in loss per share is driven by net loss impacts described above and issuances of shares during the year.

Fourth Quarter

Revenue fluctuations quarter over quarter were primarily due to Covid-19 impacts. This leads to lower onboarding of new drivers and a decline in point of sale spend. Higher Q4 revenue trends were primarily due to launch of Lyft and DoorDash programs, higher number of users and increased trip earnings and spending volume during the holiday season. Q4 2020 also includes revenue from customer support services related to the onboarding of new DoorDash drivers.

The Q4 2020 net loss fluctuations are mainly due to increased cost of services attributed to network, payment processor, card production, customer support and other set-up costs. This was partially offset by one-time credit of $537K from a network provider linked to the set-up of the DoorDash program. The decrease in salaries and related costs are mainly attributable to government sponsored wage subsidy claims and mandatory share purchase and options exercise program in lieu of salary.

Selected Annual Information

The following table displays a summary of the Company’s consolidated statement of operations and comprehensive loss for the years ended December 31, 2020, 2019 and 2018 and a summary of select Statement of financial position data as at December 31, 2020, 2019 and 2018.

	Year end December 31		
In CAD $ (except stated)	**2020**	**2019**	**2018**
Revenue	$ 13,449,513	$ 6,309,642	$ 3,588,212
Costs of services [(1)]	13,905,847	7,098,893	3,629,913
Gross profit [(1)]	(456,334)	(789,251)	(41,701)
Share-based compensation	8,562,325	4,926,531	4,088,992
Salaries and related costs	3,433,892	5,290,852	3,322,323
Other operating expenses	2,956,384	3,277,733	5,068,966
Finance costs	9,874,731	8,572,441	806,512
Amortization and depreciation	1,139,125	1,045,968	551,117
Other Income	(98,749)	-	-
Change in fair value of derivative liability	-	-	(612,958)
Loss on extinguishment of debt	-	-	138,970
Net loss	(26,324,042)	(23,902,776)	(13,405,623)
Net loss per share [(2)]	$ (0.87)	$ (1.03)	$ (0.77)
Key performance indicators			
ARPU [(1)]	$ 21.51	$ 20.55	$ 27.67
Ending active users (#) [(1)]	54,789	75,604	13,830

	As at December 31		
In CAD $ (except stated)	**2020**	**2019**	**2018**
Cash - unrestricted	$ 1,622,408	$ 949,024	$ 326,163
Cash - restricted	27,423,485	28,476,612	4,781,710
Accounts receivable	1,423,207	4,827,671	4,721,660
Prepaid & other current assets	142,740	257,735	596,339
Building, property and equipment	49,202	224,648	107,172
Intangible assets	1,055,628	1,296,614	1,066,054
Total assets	31,716,670	36,032,304	11,599,098
Accounts payable & accrued liablities	3,304,956	3,209,339	3,713,831
Pre-funded liability	22,513,851	21,917,760	-
Short-term debt	17,875,470	8,756,943	9,979,773
Deferred Income	178,327	-	-
Lease liabilities	3,316	165,278	-
Total liabilities	43,875,920	34,049,320	13,693,604
Shareholders' (deficiency) equity	$ (12,159,250)	$ 1,982,984	$ (2,094,506)

(1) See "Definitions - IFRS and Additional GAAP Measures"

(2) Payfare consolidated its outstanding common shares on the basis of 6.2771 pre-consolidation common shares for every one (1) post-consolidation common share. Net loss per share reflects post consolidation amounts for all periods.

EBITDA and Adjusted EBITDA

"EBITDA" means net income (loss) before amortization and depreciation expenses, finance and interest costs, and provision for income taxes.

"Adjusted EBITDA" adjusts EBITDA for stock-based compensation expense, transactional gains or losses on assets, asset impairment charges, loss on extinguishment of debts, interest income, net foreign exchange gains or losses, gains or losses from changes in fair value of derivative financial instruments and contingent consideration liabilities measured at fair value through profit or loss, gains or losses from disposals of equipment, net income or loss from equity accounted investees and income tax expense or recovery, restructuring costs and non-recurring expense items. Non-recurring expense items are transactions or events which management believes will not re-occur within the foreseeable future and include: legal and professional fees related to acquisition and going public transaction.

The table below shows comparisons of the year ended December 31, 2020 and 2019.

	Year end December 31	
	2020	**2019**
Net loss	**$ (26,324,042)**	**$ (23,902,776)**
Add:		
Finance costs	9,874,731	8,572,441
Amortization of intangible assets	944,877	833,964
Depreciation of property & equipment	194,248	212,004
EBITDA (1)	**(15,310,186)**	**(14,284,367)**
Add:		
Legal, professional and restructuring	460,074	1,480,580
Share based compensation	8,562,325	4,926,531
Adjusted EBITDA (1)	**$ (6,287,787)**	**$ (7,877,256)**

(1) See "Definitions - IFRS, Additonal GAAP and Non-GAAP Measures"

EBITDA

EBITDA was ($15,310,186) for the year end December 31, 2020 compared to ($14,284,367) for the same period in 2019. The EBITDA decrease of $1,025,819 was mainly due to higher share-based compensation of $3,635,794 driven by issuance of new grants in 2020 with shorter vesting terms and restriking of options under mandatory options exercise program increased insurance costs of $367,288 due to launch of new programs. This was partially offset by a decrease in salaries of $1,856,960 due to wage subsidy claims and mandatory share purchase and options exercises in lieu of salary, lower external recruiting costs of $105,979, decline in Corporate transactions costs of $461,336 associated with going public and acquisition compared to the prior year and decrease in restructuring costs of $559,170 associated with the settlement of legal claims with former employees in 2019.

Adjusted EBITDA

Adjusted EBITDA was ($6,287,787) for the year end December 31, 2020 compared to ($7,877,256) for the same period in 2019. The increase in adjusted EBITDA of $1,589,469 was mainly due to decrease in salaries of $1,856,960 driven by government supported wage subsidy grants and mandatory share purchase and options exercise program in lieu of salary, lower professional and consulting costs of $405,567 primarily driven by hiring of external developers for launch of Lyft program in 2019, lower marketing agency costs of $106,820 due to termination of contract, decline in external recruitment agency costs of $105,979, lower customer acquisition costs of $50,109 and decrease in travel and entertainment expenses of $183,990 due to Covid lockdowns partially offset by higher bad debts of $346,656 due to cardholder's settlements/ claims and recovery of previously written-off accounts receivable balances of $824,000 in 2019.

Liquidity and Capital Resources

Payfare has historically financed its growth and operations mainly from the issuance of equity securities and short-term debts. The Company intends to use its funds to meet funding requirements for business development and new customer deployments based on anticipated market demand. Actual funding requirements will vary depending on a variety of factors, including Payfare's success in executing its business plan, the progress of its product and business development efforts, its sales and its ability to manage the Company's working capital requirements.

Payfare's existing cash balances, cash generated from operations and cash proceeds from debt and equity issuances will be required to meet its anticipated cash needs for working capital, growth capital and capital expenditures until the Company is generating positive operating cash flows.

The table below is a summary of cash inflows and outflows by activity.

	Year ended December 31	
Statement of Cash Flows Summary	**2020**	**2019**
Cash inflows and (outflows) by activity:		
Operating activities	$ (1,706,038)	$ (11,313,424)
Investing activities	(726,929)	(1,084,479)
Financing activities	3,106,351	13,020,764
Net cash (outflows) inflows	673,384	622,861
Cash and cash equivalents, beginning of period	949,024	326,163
Cash and cash equivalents, end of period	$ 1,622,408	$ 949,024

Operating activities

For the year ended December 31, 2020, cash used in operating activities was ($1,706,038) compared to cash used in operating activities of ($11,313,424) for the same period in 2019. The decrease in cash used in operating activities was mainly due to changes in non-cash working capital primarily driven by timing of collection of receivables of $2,758,932, deferred income of $178,327 and change in restricted cash balance offset by payments on non-capital expenditure of $4,132,950.

Investing activities

For the year ended December 31, 2020, cash used in investing activities was ($726,929) compared to ($1,084,479) for the same period in 2019. The decrease in cash used in investing activities was attributed to decline in capitalized development costs of $360,633 due to hiring of external developers for the launch of Lyft program in 2019 and lower internal costs of internally generated intangible assets related to the Company's mobile banking and instant payment solution during 2020. This was partially offset by slightly higher capital expenditures of $3,083 due to purchase of computers for new hires and replacements.

Financing activities

For the year ended December 31, 2020, cash generated from financing activities was $3,106,351 compared to $13,020,764 for the same period in 2019. The decrease in cash generated of $9,914,413 was due to lower net proceeds from short-term debts of $6,330,489 (net of repayments made during the year) and decline in net cash proceeds of $4,227,236 from issuance of shares and the exercise of options and warrants during the year compared to the same period in 2019.

Capital resources

The Company's intention is to ensure adequate sources of capital are available to carry out our capital plan, while maintaining operational growth and stable cash flow to sustain future development of the business. The Company's overall capital management strategy remains unchanged from prior year.

As at December 31, 2020, the Company had cash and cash equivalents of $1,622,408 and access to bridge loan and revolving credit facility, subject to the terms and conditions of the credit facilities. The Company anticipates incurring estimated capital expenditures of $1,000,000 for the development of internally generated intangible assets related to mobile banking and instant payment solution as dictated by business needs.

Management believes the Company's current cash from the IPO, anticipated cash from operations, access to additional financing in the form of debts or equity will be sufficient to meet its working capital and capital expenditure requirements for at least the twelve-month period following December 31, 2020.

In light of the current COVID-19 pandemic and the impacts it had on businesses globally, the Company continues to monitor its cash position closely and has taken mitigation efforts to conserve its cash, implement cost saving measures and avail itself of available Government support programs.

Debt facility

The following are the material debt facilities entered by the Company:

(a) Revolving credit facility

In April 2019, the Company obtained a new revolving credit facility with repayment term of 18 months from the date of agreement, which has been extended to March 31, 2021 (refer note 10(a) of the Annual Financial Statements).

Facility A has a maximum drawdown limit of $25,000,000 with an interest rate of 12.5% per annum (compounded daily) and is utilized to fund eligible accounts receivable from time to time. Facility B has a maximum draw down limit of $9,500,000 with an interest rate of 11% per annum (compounded daily) and is used to fund general working capital needs, and to retire certain pre-existing debt obligations of borrower as approved by the lender.

The Company's revolving credit facility agreement is subject to certain financial covenant clauses whereby the Company is required to meet a monthly revenue minimum. The Company did not fulfill this covenant for the months of April to June 2020 ("Revenue Covenant Breach") due to Covid-19 impact on business. Due to the Revenue Covenant Breach, the lender was contractually entitled to request for immediate repayment of the outstanding balance under Facility A and B of $12,849,760 as of December 31, 2020. The lender did not request for early repayment of the balance outstanding and waived the defaults in respect of the Revenue Covenant Breach.

During April 2020, the Company repaid $2,500,000 towards outstanding principal of revolving facility (Facility A). As at December 31, 2020, the outstanding loan balance of revolving credit facilities was $12,849,760 (Facility A - $3,928,623 and Facility B - $8,921,137).

Subsequent to the year-end on March 23, 2021, using the proceeds from the IPO, the Company paid $13,137,022 to settle all of the outstanding principal, accrued interest, and extension fees under the revolving credit facility.

(b) Bridge loan

In July 2020, the Company borrowed $5,000,000 of bridge loan at an interest rate of 15% per annum payable quarterly. The loan has a term of 18 months maturing on December 31, 2021. The proceeds from the loan are utilized for meeting day to day operating working capital expenses. In February 2021, the Company amended an existing loan agreement to borrow an additional $2,500,000 at an interest rate of 15% per annum payable quarterly at the same terms and conditions of the original bridge loan. The Company will also have an option to access an additional $10,000,000 loan facility at an interest rate of 10% per annum if the going public transaction is delayed or cancelled.

Subsequent to the year-end on March 22, 2021, using the proceeds from the IPO, the Company paid $7,758,904 to settle all of the outstanding principal, accrued interest, and administrative fees under the bridge loan.

(c) Convertible debts

On March 22, 2021, all holders of convertible debentures converted their holdings into 2,533,332 common shares of the Company and settled $633,333 in principal amounts owing to the holders.

Exercise of options, RSUs and warrants

The Company received cash proceeds of $2,160,285 on exercises of 8,260,769 warrants and 450,000 options during the year ended December 31, 2020. Out of which, $7,500 was receivable at year end and subsequently received in 2021.The proceeds were, and are expected to be, used for general corporate and working capital requirements.

Subsequent to the year ended December 31, 2020, the Company received total cash consideration of $458,086 upon exercise of 943,657 warrants and 322,588 options.

Initial public offering

On March 19, 2021, the Company completed its upsized initial public offering (IPO), in which Company issued 10,900,000 common shares (on a post-consolidation basis) at $6 per share. The Company's common shares started trading on March 19, 2021 on the Toronto Stock Exchange ("TSX") under the symbol "PAY".

The Company received cash proceeds of $59,528,602, net of underwriter's commission of $3,914,880, legal and advisory costs of $1,782,436 and other disbursements of $22,066.

The Company has also granted to the Underwriters an over-allotment option, exercisable in whole or in part, at the sole discretion of the Underwriters, for a period of 30 days from the closing of the IPO to purchase up to an additional 1,635,000 common shares at a price of $6 per common share. If the overallotment is exercised in full, the total gross proceeds from the IPO will be $75,210,000. The Company anticipates receiving total cash proceeds of $68,750,002 net of underwriter's commission of $4,512,600 and other legal and advisory costs as described above.

Wage subsidy

In response to the COVID-19 coronavirus pandemic, in March 2020 the government of Canada introduced the Canadian Emergency Wage Subsidy program for companies which experienced reductions in revenue. The wage subsidy program is extended to June 2021.

The Company's application for the program was approved and it was entitled to the wage subsidy starting from March 15, 2020. During the year, the Company claimed a wage subsidy of $1,302,049, of which $1,035,714 was claimed during the year ended December 31, 2020 and $266,335 was collected subsequent to the year-end (during Q1 2021).

Share capital

On March 9, 2021, the Company consolidated its outstanding common shares on the basis of 6.2771 pre-consolidation common shares for everyone (1) post-consolidation common share.

Payfare's authorized share capital consists of an unlimited number of common shares. As at December 31, 2020 there were 190,940,411 (consolidated - 30,418,570) common shares issued and outstanding, 11,500,278 (consolidated - 1,832,100) stock options, 13,853,656 (consolidated - 2,207,015) warrants and 13,154,079 (consolidated - 2,095,566) RSUs outstanding.

As at March 31, 2021, there are 31,209,196 common shares, 1,765,901 options, 3,259,209 warrants and 1,882,888 RSUs outstanding.

Off balance sheet arrangements

At the date of this MD&A, the Company had no material off balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been highlighted herein.

Contractual obligations

The table below shows significant contractual obligations as of December 31, 2020.

	2021	2022	Thereafter	Total
Short term debts (principal) [1]	$ 18,483,092	$ -	$ -	$ 18,483,092
Interest payments [1]	7,530	-	-	7,530
Payables & other liabilties	3,304,956	-	-	3,304,956
Lease liabilities	$ 3,316	$ -	$ -	$ 3,316

[1] As of March 23, 2021, all short term debts were repaid using proceeds from the IPO

Accounting Pronouncements adopted in 2020

(a) IFRS 3, Business combinations ("IFRS 3")

IFRS 3 outlines the accounting when an acquirer obtains the control of a business through acquisition or merger. Such business combinations are accounted for using the "acquisition method", which requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. The adoption of this standard did not have an impact on the Company's consolidated financial statements and related disclosures.

(b) Future accounting changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2021 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded.

Critical Accounting Estimates

Estimates and assumptions are continuously evaluated and are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience. However, actual outcomes may differ from the amounts included in the Annual Financial Statements.

The preparation of financial statements also requires management to exercise judgement in applying the Company's accounting policies.

The Company's critical accounting estimates and judgements include those related to the valuation of share-based payments, assessment of costs capitalized in development and recoverability of internally generated intangibles, assessment of gross versus net revenue recognition, provision for loss allowances on its accounts receivable, assessment of contingent liabilities, recognition of deferred tax assets, the useful lives of property and equipment and the fair values of financial instruments.

These accounting estimates have been applied in a manner consistent with that in prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the assumptions utilized in these Annual Financial Statements.

Related Parties

Key management is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. The Company's key management personnel include founders of the Company, Board members and other key senior executives.

Remuneration of key management of Company were as follows:

	Year ended December 31	
	2020	2019
Salary and related costs	$ 1,650,691	$ 2,564,482
Share based compensation	4,047,039	3,986,650
Total	$ 5,697,730	$ 6,551,132

As at December 31, 2020, Convertible debentures totaling $120,000 (2019 - $120,000) were held by executives of the Company. Total interest paid in respect of these convertible debentures for the year ended December 31, 2020 was $16,961 (2019 - $12,494).

Capital Risk Management

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its growth activities and to maintain its ongoing operations. To pursue these plans, the Company has successfully completed its initial public offering (the "IPO") on March 19, 2021 and raised net cash proceeds of $58.12 million. In future, the Company may attempt to raise additional capital necessary through the issuance of equity and or debt financing. The Company's capital structure comprises of issued capital and borrowed capital. As of March 31, 2021, the Company has settled all its debt obligations. There are no changes to the Company's capital management strategy from December 31, 2020.

Financial Risk Management

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by the accounting and finance department governed by policies approved by the Board of Directors. This department identifies and evaluates financial risks in close cooperation with management. The finance department has the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

Currency risk

The Company operates mainly in Canada and has subsidiaries in United States and Mexico. The Company has exposure to foreign exchange risk. Foreign exchange risk arises from purchase and sales transactions, as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company's main objective in managing its foreign exchange is to generate revenue or borrow in USD as a natural hedge against movements in the foreign exchange rate and to maintain Canadian cash on hand to support Canadian forecasted cash flows over a 12-month horizon. To achieve this objective, the Company monitors forecasted cash flows in foreign currencies and Canadian cash needs. The Company does not use derivative instruments to mitigate this risk.

As at December 31, 2020, the 5% fluctuation of the USD relative to the CAD would impact net loss by $6,943 (2019 - $34,009). Exchange differences on settlement of monetary items are reported as foreign exchange gain or loss in the consolidated statement of operations and comprehensive loss.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's short-term debts have fixed interest rates and are not exposed to interest rate risk.

Credit risk

Credit risk is the risk that the counter party will default on its contractual obligations resulting in financial losses to the Company. The Company has adopted a policy of dealing with credit-worthy counterparties. The Company's exposure and credit rating of counterparties is continuously monitored.

The Company's accounts receivable at December 31, 2020 includes an exposure to credit risk owing to a significant single counterparty receivable balance. Management actively mitigates the risk by ensuring receivables remain current. Amounts receivable net of allowance for expected credit loss from Uber B.V. have been realised in full after the year end. As of year-end, the aging of Uber outstanding receivables is current and less than 30 days.

At present, the Company is largely economically dependent on its contracts with Lyft, Uber and DoorDash. The Company is mitigating the counterparty risk by initiating dealings and negotiations with new customers to implement customer prefunded instant payment solution programs. In December 2019, the Company executed a new contract with food delivery company DoorDash Inc. to provide mobile banking solutions to its dashers in Canada and Australia.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures. The Company was able to raise financing through equity issuances, subscription receipts, and credit facilities to fund eligible receivables for operational growth, new business initiatives, and operating working capital requirements.

In addition, subsequent to year end, the Company was able to raise additional financing through the initial public offering (IPO) which has significantly decreased liquidity risk.

Covid-19

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Canada, resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable.

The COVID-19 pandemic has negatively impacted the global economy, disrupted the global ride hailing industry and created significant economic uncertainty and disruption to the financial markets. Further, the current challenging economic climate and events around the COVID-19 outbreak may lead to adverse changes in revenue, cash flows and working capital levels, which may also have a direct impact on the Company's operating results and financial position in the future.
The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company's business is not known at this time.

Fair value

The estimated fair values of cash, accounts receivable, accounts payable, accrued liabilities, pre-funded liabilities and short-term debts approximates their carrying values due to the relatively short-term nature of the instruments.

Subsequent Events

(a) Subsequent reorganization

On March 9, 2021, Payfare amended its articles to remove the restriction prohibiting the Company from offering its securities to the public, to remove certain transfer restrictions which required the Board to approve transfers of common shares between holders, re-designate the common shares in the share structure of the Company as Class A common shares and to create a class of shares designated as Class B common shares for the purpose of completing a reorganization of the Company's assets. On March 12, 2021, in connection with the Reorganization, Payfare Inc. was continued under the British Columbia Business Corporations Act.

On March 15, 2021, pursuant to a reorganization of the Company's assets (the "Reorganization"), Payfare Software Inc. (the "SoftwareCo"), a wholly owned Ontario corporation incorporated on December 29, 2020 for the purpose of giving effect to the Reorganization, purchased certain software and intellectual property assets of Payfare Inc. for aggregate consideration of approximately $58,000,000 (the "Software Dropdown"). The amount was paid by the issuance of intercompany debt payable by SoftwareCo to Payfare Inc. (the "Software Debt Consideration").

As a result of the Reorganization, a capital gain was triggered in Payfare Inc. which will be sheltered by Payfare Inc.'s available loss carryforward balances. Payfare Inc. then subsequently increased the capital of the common shares by $27,259,428 by resolution of the Board (the "Capital Increase") and elected that the deemed dividend arising from the stated capital increase be characterized as a capital dividend.

In order to facilitate the Capital Increase and prior to its implementation, the Company amended its articles to, inter alia, re-classify the Company's common shares as Class A common shares and a new class of Class B shares were created. Payfare Inc. subsequently continued under the British Columbia Business Corporations Act. Payfare Inc. then entered into share exchange agreements with certain of its non-Canadian resident shareholders pursuant to which their Class A common shares were exchanged, prior to the Software Dropdown, for newly created Class B common shares of the Company on a 1:1 basis.

Following the completion of the stated capital increase, the Class B common shares were exchanged back into Class A common shares pursuant to share exchange agreements with each of the holders of Class B common shares. The Reorganization, Capital Increase, and related transactions had no impact on the consolidated financial statements.

(b) Subsequent settlement of a claim

On March 1, 2021, the Company issued 1,000,000 warrants to Rocket Holdings LLC, each exercisable for one common share of Payfare for an exercise price equal to the issue price of the common shares in the Company's initial public offering, which expire February 19, 2024. The warrants were issued as settlement of a claim against Payfare by Rocket One Capital LLC (formerly Foundation Capital LLC) and its principal, Michael Shvartsman.

On March 15, 2021, in response to a threatened claim by a former shareholder, the Company entered into a settlement agreement which provided for a full release of the former shareholder's claim for a payment of $1.4 million in cash. This amount was fully paid subsequent to the closing of the initial public offering.

(c) Subsequent issuances and exercise of options, RSUs and warrants

In January 2021, two warrant holders exercised their warrants to purchase 510,182 common shares for total cash proceeds of $229,582.

On February 28, 2021, the Company amended the existing bridge loan agreement to borrow an additional $2,500,000 at an interest rate of 15% per annum payable quarterly at the same terms and conditions of the original bridge loan. As per the amended agreement, the lender was granted a total of 10,900,000 pre-consolidation warrants in place of the existing warrants granted as part of the bridge loan. 9,000,000 warrants were granted at a strike price of $0.55 and the remaining 1,900,000 warrants were granted at a strike price equal to the going public transaction per share valuation.

In March 2021, stock options were exercised to purchase 322,588 common shares for total cash proceeds of $119,090, warrants were exercised to purchase 433,475 common shares for total proceeds of $109,384, and 1,335,000 common shares were issued to RSUs holders.

Definitions – IFRS and Additional GAAP Measures

IFRS Measures

Cost of services

Cost of services consists of expenses related to servicing the customers' instant pay and mobile banking solutions. These expenses include interchange and related network fees, ATM (Automated Teller Machine) fees, interest on its funding facility, card set-up and printing costs and customer support expenses for resources directly associated with the cost of services.

Gross profit margin

Gross profit margin is revenue less cost of services.

Other operating expenses

Other operating expenses includes consultant & professional fees, legal expenses, travel & entertainment expenses, bad debt expense, customer acquisition costs, computer and software purchases, marketing expenses, recruiting expenses, rent expense for office facilities, insurance, telecom expenses, office supplies and maintenance expenses.

Finance costs

Finance costs consist of interest charged on our short-term debts, amortization of deferred financing costs and accretion expense. The deferred financing costs are amortized using the effective interest method over the term of the loan.

Additional IFRS Measures

Loss from operations

Loss from operations exclude foreign exchange loss, income taxes, finance costs and change in fair value of derivative liability. We consider loss from operations to be representative of the activities that would normally be regarded as operating for the Company. We believe this measure provides relevant information that can be used to assess the consolidated performance of the Company and therefore, provides meaningful information to investors.

Non IFRS Measures

This MD&A includes certain measures, which have not been prepared in accordance with IFRS. Management measures the success of its strategy using key performance indicators - such as EBITDA, adjusted EBITDA, average revenue per user (ARPU) and active user. These measures are provided as additional information to complement IFRS measures by providing further understanding of our results of operations from management's perspective, to provide investors and security analysts with supplemental measures to evaluate the financial performance of the Company and highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also uses non-IFRS measures to facilitate operating performance comparisons from period to period, prepare annual operating budgets and strategic business plans and to evaluate and price potential acquisitions. Accordingly, these non-IFRS measures should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. Such measures do not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other corporations. The non-IFRS financial measures are not subject to standard industry definition and our definitions and method of calculation may differ from other issuers and therefore may not be comparable to similar measures presented by other issuers.

EBITDA and Adjusted EBITDA

"EBITDA" means net income (loss) before amortization and depreciation expenses, finance and interest costs, and provision for income taxes.

"Adjusted EBITDA" adjusts EBITDA for stock-based compensation expense, transactional gains or losses on assets, asset impairment charges, loss on extinguishment of debts, interest income, net foreign exchange gains or losses, gains or losses from changes in fair value of derivative financial instruments and contingent consideration liabilities measured at fair value through profit or loss, gains or losses from disposals of equipment, net income or loss from equity accounted investees and income tax expense or recovery, restructuring costs and non-recurring expense items. Non-recurring expense items are transactions or events which management believes will not re-occur within the foreseeable future and include: legal and professional fees related to acquisition and going public transaction.

Average Revenue Per User ("ARPU")

"Average Revenue Per User" ("ARPU") represents the total revenue in the period divided by the average number of active users in the period. ARPU helps to identify trends and measures success in attracting and retaining users.

Active User

The Company determines the number of users to our services based on active users. Active users represent users who have loaded earnings on their card in that period.

Internal Controls Over Financial Reporting and Disclosure Controls and Procedures

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that:

(i) the Annual Financial Statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the Annual Financial Statements; and

(ii) the Annual Financial Statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented.

The Company's Chief Executive Officer and the Chief Financial Officer are responsible for the design of internal controls over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There were no changes in the Company's internal controls over financial reporting during the Company's most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risk Factors

Payfare is exposed to a number of risks and uncertainties. A summary of material risks that could affect the financial condition, operating results or business of Payfare can be found in section "Risk Factors" of Payfare's final prospectus dated March 15, 2021, which is available under Payfare's profile on SEDAR at www.sedar.com.