

FINAL TRANSCRIPT

Posera-HDX Limited

Quarterly Financials and Update Conference Call

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PRESENTATION**Operator**

Good morning, ladies and gentlemen. My name is Aaron (phon), and I will be your Operator today. At this time, I would like to welcome everyone to the POSERA Quarterly Financials and Update Conference Call.

At this time, all lines have been placed on mute to prevent any background noise.

After our speakers' remarks, there will be a question-and-answer session. If you'd like to ask a question at that time, please press *, then the number 1 on your telephone keypad.

I'd like to turn the call over to CEO, Loudon Owen. Mr. Owen, you may begin.

Loudon Owen — Chief Executive Officer, Posera-HDX Limited

Thank you very much, Operator. I'd like to thank everybody for joining our Q3 conference call today. Our CFO, Kevin Mills, and I will present.

While this is our first such conference call, our intention going forward is to have a regular call each quarter.

Today, Kevin will first review the financial results for the quarter, then address the industry and where the Company is positioned. After that, we'll take questions.

Before we do so, we need to make sure the ground rules are understood.

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This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates.

Any statements contained herein, that are not statements of historical fact, may be deemed to be forward-looking, including those identified by expressions anticipate, believe, plan, estimate, expect, intend, and similar expressions to the extent they relate to the Company or its management.

The forward-looking statements are not historical facts but reflect POSERA's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under Risks and Uncertainties in the Annual Information Form, which was filed on March 31, 2015, with the regulatory authorities.

POSERA assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those reflected in the forward-looking statements, unless required by law.

And with that, I'm going to turn it over to Kevin, to discuss the financial results of the third quarter. Kevin?

Kevin Mills — Chief Financial Officer, Posera-HDX Limited

Thank you, Loudon. The third quarter of 2015 continued POSERA's general trend for the fiscal year of 2015.

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On a total revenue basis, the third quarter, not unlike prior years tends to be somewhat seasonally stronger than the first quarter and slightly slower when compared to the second quarter.

Total revenue of almost \$5.1 million for the third quarter was 8 percent ahead of the comparable quarter for 2014 and 4 percent below the second quarter of 2015.

Payment processing revenues grew by 35 percent when contrasted to the comparable quarter in 2014 and remained relatively consistent when compared to the second quarter of 2015.

Meanwhile, the third quarter of 2015 Point-of-Sale revenue increased 5 percent when contrasted to the comparable quarter in 2014, but decreased 5 percent when compared to the second quarter of 2015.

The Company continues to build on its recurring revenue model of stable, predictable, recurring revenue streams. Revenue will continue to benefit the Company as we focus on enhancing and growing these revenue streams.

Recurring revenue is a non-GAAP financial metric, which includes payment processing revenue and certain components of Point-of-Sale revenue as disclosed in the Management Discussion & Analysis.

These types of revenue include Point-of-Sale, support, and maintenance contracts, Point-of-Sale referral revenue, sharing agreements, and other recurring revenue arrangements.

On that note, recurring revenue was approximately \$2.3 million for the third quarter of 2015, an increase of 24 percent from the comparable quarter of 2014.

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The increase is a result of increases in essentially all recurring revenue segments, payment processing revenue, revenue sharing agreements, and Point-of-Sale revenue through support and maintenance contracts.

During the third quarter of 2015, POSERA experienced an increase in recurring revenue of 7 percent from the second quarter of 2015. The resulting increase during these comparable periods is primarily due to an increase in Point-of-Sale support and maintenance contracts, as the change in payment processing revenue was relatively muted between the comparable periods.

The Company experienced a normalized EBITDA loss of \$275,000 for the third quarter of 2015, an increase in the loss of \$194,000 from the comparable quarter in 2014, and an increase in the loss of \$149,000 when compared to the second quarter of 2015.

One of the reasons for the increase in the loss during the quarter stems from the increasing sales and marketing expenditures and, specifically, onetime commissions.

These onetime commissions are recorded at the inception of the customer relationship, and are directly attributed to the payment processing terminals' portion of the sale.

However, the associated payment processing revenue stream transpired—transpires and is recorded over the payment processing term, rather than at its inception.

These onetime commissions totalled \$189,000 in the third quarter of 2015, an increase of \$30,000 from the comparable quarter in 2014 and an increase of \$62,000 from the second quarter of 2015.

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Another cause for the increased normalized EBITDA loss during the third quarter of 2015 stems from the increased agent fees that are recorded in the sales and marketing expense line of the Company's interim statement of operations.

The agent fees that were incurred during the quarter were approximately \$185,000 compared to \$133,000 in the third quarter of 2014 and \$173,000 in the second quarter of 2015, representing increases of \$52,000 and \$13,000 in their respective comparable periods.

The increases in agent fees is almost directly correlated to the growth in processing volumes for the Company's merchant portfolio. As the increase in agent fees is so closely correlated to the growth in payment processing revenues generated by the Company, this indicates that as the Company's portfolio has been growing, the Company has been able to, in large part, maintain the margins earned from payment processing related services.

A further reason for the increase in the normalized EBITDA loss for the third quarter of 2015 is due to the Company's acquisition of Terminal Management Concepts, TMC, in the fourth quarter of 2014.

The consolidated company of POSERA has experienced an increase in salaries and expenditures on developing and enhancing the Company's integrated payment solutions offered in Canada and the United States. These expenditures are primarily reflected in the technology expense line item on the statement of operations.

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TMC's impact to the normalized EBITDA loss was approximately \$75,000 in the third quarter of 2015, an increase of \$75,000 as there was no TMC-related expenditures in the comparable quarter of 2014.

Additionally, the normalized EBITDA loss for TMC in the second quarter of 2015 was only \$13,000, an increase in the loss of \$62,000 during the third quarter of 2015.

The Company has yet to realize material revenue streams from the TMC acquisition.

Turning to the balance sheet, POSERA's working capital was approximately \$1.8 million as at the third quarter of 2015, an increase of approximately \$1.4 million from the comparable quarter in 2014, and a decrease of approximately \$500,000 from the second quarter of 2015.

The movement during the third quarter of 2015 compared to the second quarter of 2015 is largely the result of debt repayments and cash flow from operations.

Loudon Owen

Thanks, Kevin. While we will be taking questions in just a moment, I'll just make (phon) a few points.

At this point in the organization, just to be clear, we are not giving forward guidance. So please keep that in mind during the question period.

It's Loudon speaking. I've been in the CEO seat for just over six weeks, and I've been meeting with our employees, customers, dealers, partners, and some of the shareholders.

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The first priority is to continue to serve our existing client base, and the organization is collectively focused on that objective.

There are a number of initiatives underway, in each of the sectors in which we operate, to enhance our product and service offering, and to ensure we are building off our existing customer, dealer, and partner base.

We continue to be active in seeking opportunities, arising from the—October the 1st of this year, shift of liability in the US to merchants, and the resultant drive for EMV Chip and PIN, or what's referred to as EMV Chip and Choose solutions.

As we announced, we elected not to proceed with the acquisition of a Chicago-based wholesale payment processor called Premier Payment Systems. While we have not permanently ruled out being in the wholesale payment processing business in the US, instead of completing an acquisition at this point we're adopting a partnership model.

Our commitment has included the previously announced acquisition of TMC, which Kevin was discussing, along with its experienced development team in the payments and point-of-sale sectors.

Looking at our financial position, we are certainly not pleased with the losses this quarter, and we're taking steps to restructure the organization.

In particular, we're breaking down and integrating what had evolved into a collection of silos. While it takes time, we're investing in a top-to-bottom analysis of the market segments we

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operate in, our offering vis-à-vis the competition, and an analysis of how best to leverage the many talents of our team. Once this is achieved, we expect to build—leverage economies of scale and achieve better financial results.

With that, I'd like to turn the call over to the Operator, for a question-and-answer period, if there are any questions.

Q&A

Operator

At this time, I'd like to remind everyone, in order to ask a question please, press *, then the number 1 on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Greg Steers from Scotiabank. Your line is open.

Greg Steers — Scotiabank

Morning, Loudon. Can you talk a little bit about how big the opportunity is, for a little company like ours, in the Chip and PIN in the United States? And really what our opportunities are sort of immediately and in the longer term.

Loudon Owen

Yep. Morning, Greg. It's a good question. I think the size of the Company is always a material consideration for any entry into any market, but in particular to such a large market. And I think that will—one answer is, it's a highly tiered market in the US. So there are certain tiers, which we can, I

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think, pretty effectively approach. A lot of the customer base we have are customers that have, let's say, between 50 and 250 individual outlets, individual stores. And that's, in the US, not always considered large. But it's certainly a market, by our standards, that's quite substantial. So the first thing is we segment the market, and we see where there's a need. And most of the investment thus far in the US that we've see has really been targeted to the much, much larger enterprises, and that's just the—of necessity.

And I think the second part is it is noteworthy that we do have many years of experience in this area. And so we certainly have a technology expertise and implementation expertise. So what do you do with it? We had a couple of different options. One was to go forward and try to independently enter into the market, and that was previously discussed. And that was a Premier Payments consideration. The second approach is to find partners. So I think if you look at the segments we're accustomed to servicing, the fact we've got the technology and expertise and that we're taking more of a partnership approach, we're really looking to partner with people that already have their reach and have the capacity then to enter the industry.

The other thing I'll say is that we already are active in the US. And we've got a very good sales and support office in Seattle. And we've got—I think we can cover the support across the various times zones from the Canadian side as well. So we do have an active US operation, and I think we're well regarded in the segments we're in.

Greg Steers

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And just to follow up, Loudon, can you—I know you don't want to give guidance, but clearly the size of that market alone dwarfs anything here in Canada, do you have a sense of how big one would have to become in that market before a consolidator might look at you?

Loudon Owen

Well, we certainly don't want to give guidance. And thank you for reiterating that. I appreciated it, Greg. I don't know. I think it depends—it really depends what any particular consolidator has today and where they see the market headed to. October the 1st, US retail didn't shut down. And it wasn't kind of this cataclysmic event. And a lot of the—I mean everybody in the US is clearly gearing up for how best to address this market, and it's evolving rather than some sort of sudden instant transition.

I think that it depends if you're looking at it from a consolidation perspective. If they want to do something on the basis where they can get in earlier, then they probably would look at us in the near term. If it's something where they're going to wait to see what our market share is and how we can grow in that market, then they'll wait. It's really more a function of what any particular consolidator may be thinking as opposed to what's rational and what we think they should do.

Greg Steers

Thank you.

Loudon Owen

Thank you very much.

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Operator

Again, if you'd like to ask a question over the phone, it's *, then the number 1 on your telephone keypad.

The next question comes from the line of Michael Reed (phon), private investor. Your line is open.

Michael Reed — Private Investor

Oh hi. I'm just wondering I would presume you're working with some of the big payment processors. When would you be able to tell us how that is going and what the revenue implications might be?

Loudon Owen

Yeah. Good morning, Michael. Yes. We're endeavouring to work with the payment processors. And unfortunately, we can't give you a time line or even—I think it's safer not to give you sort of an order of magnitude. I can tell you that the TMC acquisition was very decidedly because of this and because of that sort of target market. So I really can't give you a time frame on it. But everybody's pretty busy in Q4. That is the big retail market in the US. It's also year-end. So I would anticipate that moving forward it's going to be people focused with their heads down on their core business and what they're actual—where they get their revenue and how they build over time. We all gear up for this quarter. Bu, I'm sorry. I can't give you a fixed time frame. I can tell you that we're working assiduously to continue to address that market.

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Michael Reed

Okay.

Loudon Owen

Thanks very much.

Michael Reed

Thank you.

Operator

And there are no further audio questions at this time. I will turn the call back over to the presenters.

Loudon Owen

Well, thank you very much. I think that was helpful. It is the first time we've done this. We intend to keep doing it. And hopefully we'll get better and better at it, and hopefully, we'll have better and better things to say.

But thank you all for your support. And if people have further questions, they can certainly contact us. Thank you.

Operator

And this concludes today's conference call. You may now disconnect.

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