

FINAL TRANSCRIPT

Posera Ltd.

Quarterly Financials and Update Conference Call

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CORPORATE PARTICIPANTS**Loudon Owen***Posera Ltd. — Chief Executive Officer***Kevin Mills***Posera Ltd. — Chief Financial Officer***CONFERENCE CALL PARTICIPANTS****Bob Buchanan***RBC — Analyst*

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PRESENTATION**Operator**

Good morning. My name is Keith (phon), and I'll be your conference Operator today. At this time, I'd like to welcome everyone to the Posera Ltd. Quarterly Financials and Update Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, 1 on your telephone keypad. If you'd like to withdraw your question, press the # key. Thank you.

Loudon Owen, Chief Executive Officer, you may begin your conference.

Loudon Owen — Chief Executive Officer, Posera Ltd.

Thank you, Operator, and thank you, everybody, for joining our 2015 annual and Q4 conference call today. My name is Loudon Owen. I'm the CEO, and I'm here with the CFO, Kevin Mills.

This is only our second quarterly conference call, so bear with us as we work through the mechanics. Our intention going forward is to have a regular call each quarter.

So today, Kevin is going to review the financial results for the year-end and for Q4, and I'm going to talk about the industry and where the Company is positioned and headed. And after that we'll take questions.

There are a couple of ground rules, and I'm going to read this. It's about a 20-second read, so bear with me on this.

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This discussion could include 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 facts may be deemed to be forward looking, including those identified by the 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 30, 2016, 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.

Now just before I turn it over to Kevin I'm just going to set the stage a little bit here. The financial results are not surprising. They're also not satisfactory.

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And last year where we saw where the financial results were headed we took action, and you'll hear the changes that have been made and the direction we're headed in. What you will see, and I think as we look back, there was a gap between the strategy and the operations.

So this has been a period of transition started in the last quarter as we began to both analyze, and also of course restructure the business.

So instead of walking through the information you already have, what I've asked Kevin to do is to highlight and explain where we stand on the most important financial issues. So I'll pass it to Kevin, and I'll take over after that and deal with our strategy.

Kevin Mills — Chief Financial Officer, Posera Ltd.

Thank you, Loudon. As I'm presuming all on today's conference call have reviewed the Company's recently published financial results, you could see the performance for the year was not positive.

I'm going to focus my discussion, as Loudon indicated, on the material events of 2015 to be reflective of where we have come from, and later Loudon will provide a roadmap of where we are today and where we are going.

First off, revenue. On a total revenue basis, Q4 tends to be somewhat seasonally stronger than the other quarters during the year. This was indicative this year.

Total revenue of 5.7 million was earned for the fourth quarter of 2015, which was 5.3 percent ahead of Q4 2014 and 11.4 percent ahead of Q3 2015.

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Recurring revenue is a key metric for the Company and is a non-GAAP financial metric, which includes payment processing revenue and certain components of point-of-sale revenues, such as support and maintenance contracts, referral revenue sharing agreements, and other recurring revenue agreements.

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

With the adjusted recurring revenue, it was approximately \$2.3 million in Q4 2015, an increase of 15.2 percent from Q4 2014. This increase is essentially across the board in all recurring revenue segments relating to payment processing, revenue sharing agreements, and point-of-sale support and maintenance contracts.

During Q4 2015, POSERA experienced a minor decrease in recurring revenue from Q3 2015. The decrease was due to a slight reduction in the point-of-sale and support and maintenance contracts, which was partially offset by an increase in the payment processing revenue that was incurred.

During Q4 2015, the Company incurred both restructuring and an impairment to goodwill. Restructuring expenditures are considered onetime expenditures that have been incurred by the Company, and relate to severance of employees, legal cost associated primarily with severance, and an operational consulting firm, which is assisting in the reorganization process for the Company.

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The restructuring expenses are a first step in the journey to reduce cost and improve the operational efficiencies, and eventually improve the financial performance of the Company.

Additionally during Q4 2015, the Company assessed an impairment to the value of goodwill in the amount of \$1.56 million in relation to its direct point-of-sale cash-generating unit. The impairment results from the Company's downward revision in the cash generating unit's revenue growth and earnings forecast in addition to the Company's evaluation of a compressed life cycle for point-of-sale technology.

This analysis has highlighted that our technology life span that previously existed for point-of-sale technology platforms is condensed rather quickly, and as a result, POSERA needs to have a well-defined product roadmap to meet the needs of our customers today and to be nimble to meet the needs in the future as well.

Finally, I was going to discuss the normalized EBITDA loss for fiscal 2015, which was \$1.2 million, an increase of essentially \$1.2 million from fiscal 2014. The loss comprised of three main factors, the first being the performance of the TMC acquisition.

TMC incurred a normalized EBITDA loss of approximately \$210,000 in 2015, and because of the timing of the acquisition, there was no gain or loss in the 2014 figures. The Company is set to realize material revenue streams from the TMC acquisition, but Loudon's portion of the call is going to discuss the opportunities in relation to the TMC product line.

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Another cause for the increased loss during 2015 was margin compression, specifically in the point-of-sale segment of the business. The Company's point-of-sale revenue decreased 1.2 percent in 2015 compared to 2014, but rather than a similar reduction in the cost of inventory, the Company experienced an increase in the cost of inventory of 2.3 percent during the comparable period.

The impact of this POS margin compression was an increase in the EBITDA loss of approximately \$315,000.

With the decline in the value of the Canadian dollar and because some of the Company's inventory sourced from the United States, or the components of our major suppliers are sourced from the United States, the Company expects there to be continued margin compression moving forward.

Finally, during 2015 the Company paid directors' fees as cash payments when they were earned, whereby in prior years directors' fees were remunerated via stock-based compensation. Stock-based compensation for the purpose of the normalized EBITDA calculation has been adjusted and thus removed.

Therefore, the directors' expenditures have been included in the expense in 2015, which increased the loss where these fees were normalized out of the EBITDA loss in 2014, as they were remunerated by way of stock-based compensation.

Additionally, the stock-based compensation in 2014 relates to directors' fees for both fiscal 2013 and 2014.

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The impact of this adjustment had a negative impact on the normalized EBITDA of approximately 393,000 between 2015 and 2014.

With that, I'm going to turn the call back over to Loudon.

Loudon Owen

Thanks, Kevin. At this point, just in anticipation of the questions, we're not giving forward guidance. We'd love to be in a position to do so, but we're just not in a position to do at this stage in the organization.

A lot of what Kevin was talking about is historical, and I'm going to try and help look a little bit forward, but it's not forward guidance.

I've been in the CEO seat for about six months. And the first thing to do was to listen with an open mind, so I went out and I spoke with employees, customers, dealers we have around the world, partners. I also spoke to competitors. We looked at related products and services, and of course, shareholders.

And when we stepped back and looked at the Company there were some tremendous strengths. And so we had to make a decision—and this was collectively among the Board members and the senior management team—is it a question of simply driving the Company back into profitability? Or is this really the platform that we hoped it was that we could build upon? And we decided it was the latter.

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So what we're doing is we're trying to both materially improve the financial performance, and whilst living within our means to the best extent possible at this point, we're looking to grow the business and have a more solid platform.

At this stage in the technology industry—and it depends, I guess, a little bit on the day of the week—but financial technology investments are pretty robust and it's a competitive field, but it's an important field. And what we realized as we went through the organization is that there is a great deal of value inherent in Posera, and that's the products; the history; the employees that work very, very hard on the front lines and all over the world; this dealer network that we have; the senior management team that are living through the transformation and so on.

It would cost quite a lot to build an organization of this size and this scope. So I know everybody grumbles and complains about being undervalued, but it does seem clear that it would be more expensive to try and build from scratch than the market cap that we have today. In other words, we're grumbling about being undervalued.

So in terms of turnaround 101, there are three things I'm going to hit on. The first is we simplified and we focused the business, the second is we have been streamlining and enhancing operations to have this proper business platform, and the third is looking ahead and charting the course together with our customers as for where we can get to.

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On the simplification and the focus side I've gone over a little bit what our strengths are. And the other strength that we're focusing on is we actually have two extremely important, well-distributed, used daily POS systems.

And in fact in some ways not only are they robust; in some we embedded a wider range of technology within them as a question of the kind of presentation layer and how they're presented.

On a weakness side we had weaknesses. We had poor financial performance, and we knew we were headed into a pretty bad couple of quarters and that the year would not be satisfactory. In large part, the underperformance financially is because of operational issues.

We weren't benefitting from synergies, we had all sorts of overlapping responsibilities among our employees, and we had a very broad vision and a very broad strategy, partly because of the acquisition history, so it was a time for consolidation.

So it led to products that had all sorts of technology included and available, but the products weren't and are now starting to be presented in a way they should be. So let's start with what we actually do.

We are a software company providing mission-critical infrastructure in the hospitality industry. That's what we do.

Everything we do is in service of that objective, whether it's our software; the hardware; the services; our payment processing. Whatever it is we need to deliver on the promise of making sure that our clients can run their business with this infrastructure and its mission critical.

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And really what's been happening in the last six months is we've also been focusing on our existing clients. We want to make sure that we retain them, that we service them, and that we understand what their needs are. So that's been the concentration.

In terms of sort of part two in the turnaround, it's the streamlining and the enhancing of operations. Now we have been I would call it revitalizing POSERA, and I think it is—and I'm not sure how you measure it—but it's certainly in a good stage of transformation. And this is across the board: sales; services; on the product side; finance; and so on.

And it's more the plumbing. It's not something that you can show to people and it's wildly sexy, but it's important; it's plumbing. So what we've done, for example—and I'm just going to highlight some of the examples—we just went through our first comprehensive across-the-Company sales meeting. And it was three days. And there was a great deal to catch up on because there had been acquisitions and they hadn't been integrated.

And we spent three days working through all of our products—in fact, a competitor's products as well—and coming up with a plan for the year. And it was integrated with a lot of the R&D that's going on, and a lot of the key R&D people attended part of it as well so everybody understood what we're doing, why, how we're going to get there.

We have been working extremely hard on our service side. And on the service side we have the capabilities for a 24/7 service organization. As we have very, very sound and actually tremendous offices in Glasgow and Seattle, it actually enables us to provide service around the clock.

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And so we've been restructuring our help desk and the whole support centre to be in a position to provide 24/7 help desk and supports. And as well on the finance side—I know Kevin would probably really enjoy talking about this for a couple of hours—but on the finance side let me just say there's been a material consolidation of all of the finance systems so that we can actually have ready access to the information we need on a real-time basis.

And then there's other infrastructure work that's been done. So we've been building out our CRM system. Things like the phone system, again, they're not very exciting to talk about, but they're fundamentals. We've been putting the building blocks in place. That has been on the streamlining side.

There have also been, as you will note, there were overlapping jobs, and that led to a variety of terminations and we were able to streamline the work force.

So looking ahead, we are continuing down sort of each of the various paths you'd expect. On the product side we have product roadmaps that are being developed aggressively. On the service side we're gearing up for a full 24/7 service, and I think the service side it's a very, very exciting dimension to it concentrating on our existing customers, but also for new customers.

On the sales side it's a really rejuvenated group that came up with a tremendous range of opportunities. And it's not just selling your own products, by the way. It's also being open minded to working with third-party developers and third-party organizations, and that looks extremely promising.

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We have a full marketing group now that's been built around existing personnel. Again, we didn't go out and hire. We've been using the strengths of the people we already have. And on finance we're consolidating on the finance side as well, so there's really too much to talk about in all these steps going forward.

I am going to talk about one thing, which is that on the middle-ware side, and I know for a lot of the more recent shareholders it's something they heard about historically. The acquisition of TMC brought with it an extremely sound group of developers and some good leadership.

It also brought with it a technology for pay-at-the-table. And pay-at-the-table is an opportunity that we believe has excellent potential.

We've discussed in the past and at the last conference call we discussed a little bit this EMV Chip and PIN, or EMV Chip-and-choose and pay-at-the-table in the United States. On October the 1st last year people know that the liability shifted in the US to the merchants. So if somebody shows up in a restaurant, and there's a fraud and their card is not processed properly, it's now on the shoulders of the restaurants, not the card provider.

And that's a huge shift, but as you would expect in an economy of that size and complexity, it didn't result in an instant change of behaviour. It happens over time. It is happening, and it's going to happen over time.

And we believe perhaps the right phrase is that there is a threshold of indignation where at some point, whether it's the customers that get tired of their credit cards being taken away when

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they're paying at the table and wondering where they've gone, or the customers that have to deal with the backlash when there's a fraud or identity theft, or the retailers, including in particular in the hospitality industry that are battling with tough margins, that there is going to be an adoption of EMV Chip-and-choose. It's not necessarily going to be Chip and PIN.

So we do have positive news to share on the call, which is that during Q1 the Company did sign its first nonexclusive pay-at-the-table agreements with a very significant partner in the US. We're not disclosing who it was.

Please be aware that we have to satisfy various technical requirements prior to the deployments. And we will be working with that organization to do whatever we can to ensure that there is deployments and to try and encourage deployments because once there is deployment into the customer locations that will generate a recurring revenue.

So it's a positive start to the year. It's something we talked about, and we do believe—again, without going into details—that we're hopeful that we'll be in a position to enter into additional pay-at-the-table agreements with additional processors in the US in the future.

So with that, I'd like to turn the call over to the Operator and jump into the question-and-answer period.

Q&A

Operator

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At this time, I'd like to remind everyone in order to ask a question over the phone, *, 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Again, if you would like to ask a question over the phone, *, 1 on your telephone keypad.

And we do have...

Loudon Owen

Wow...

Operator

One question from the line of Bob Buchanan with RBC. Your line is open.

Bob Buchanan — RBC

Hi, Loudon. Can you maybe articulate your plan to expand into the US market?

Loudon Owen

Yeah. Bob, we had historically looked at doing another acquisition as the kind of expansion path. And when we (unintelligible) it was superficially an interesting direction, but it wasn't really going to help us that much. And so we've really got two or three initiatives.

The first is that we have, as you know, we have an office in Seattle, and it's populated with really some excellent people. We also have the group here in Canada that's been dealing in the US for 15 years. So we already have some established relationships, and we're going to leverage our internal personnel to be able to sell through to the and enter into these partnerships.

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The second is, of course—rather than an acquisition—the second is, of course, we're going to look to leverage partnerships with these massive processors in the States. It's an industry that keeps consolidating. It's enormous. And to try and go in with a very small sort of US-based organization we didn't think was going to be the optimal way to go.

And it was, again, going to add more complexity to the organization. So instead of that we said, okay, let's use the people that we have internally, and get a very targeted strategy to establish partnerships and build credibility because we have to move quickly. I mean the industry is not going to stand still and people aren't just going to wait for POSERA to bring its pay-at-the-table technology.

The third aspect of it is actually on the technology itself, which is it's a moving feast. So we do have some very, very interesting plans as to the future. And we believe we can materially enhance the product and the offering itself.

And that—so it's not simply going to be an area of fees for the restaurant owner and an area where customers are happy because they're not suffering from identity theft and where our partners are happy because they've got another new revenue stream, or they've got a competitive advantage or they're at least keeping up. We're looking to leapfrog a little bit in our technology.

So there are a couple of elements to what we're doing, but we've decided that we have the strengths internally, and we want to retain the control over these relationships. So we're really focused on building some key partnerships.

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And then what has to happen is it's not just a question of securing our partner that's got to sell through. So now they have to go out and work as professionally and quickly as they can to explain why pay-at-the-table matters, what it can do for the owners, et cetera.

Bob Buchanan

Okay. Thank you.

Loudon Owen

Thank you.

Operator

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

Loudon Owen

Listen, thank you very much for attending. And just so people know, in the sort of spirit of transforming the Company this was also a bit of dry run for what we're going to be doing with our employees. We're going to have a year-end call across the board with each of our offices and walk through our results for the year, results for quarter, and where we're headed going forward.

So thank you, all, for being guinea pigs, but as well for reviewing the financial information. If there are other questions that arise, Kevin and I are both in Toronto today.

Thank you for your attendance and support.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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