

**BANXA HOLDINGS INC**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2023**

**DATED: 3 January 2024**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*This Management's Discussion and Analysis ("MD&A") is current as of 3 January 2024 and presents an analysis of the financial condition of Banxa Holdings Inc and its subsidiaries (collectively referred to as "BANXA", "BNXA" or the "Company") as at and for the three months ended 30 September 2023 compared with the corresponding periods in the prior year. This MD&A should be read in conjunction with the Company's interim condensed consolidated financial statements and the related notes thereto for the three months ended 30 September 2023.*

*This MD&A is the responsibility of management, and was approved by the Board of Directors after receiving the recommendation of the Company's Audit Committee.*

*Unless otherwise noted or the context indicates otherwise "we", "us", "our", the "Company" or "BNXA" refer to Banxa Holdings Inc and its subsidiaries. The Company presents its consolidated financial statements in Australian dollars. Amounts in this MD&A are stated in Australian dollars unless otherwise indicated.*

*The Company's continuous disclosure materials, including interim filings, audited consolidated financial statement and annual information form can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at <http://www.banxa.com/>.*

### **Caution Regarding Forward-Looking Statements**

This MD&A contains forward-looking statements that relate to the Company's current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as "outlook", "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "predict" or "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to the Company's expectations regarding its revenue, expenses and operations, key performance indicators, provision for loan losses (net of recoveries), anticipated cash needs and its need for additional financing, funding costs, ability to extend or refinance any outstanding amounts under the Company's credit facilities, ability to protect, maintain and enforce its intellectual property, plans for and timing of expansion of its product and services, future growth plans, ability to attract new members and develop and maintain existing customers, ability to attract and retain personnel, expectations with respect to advancement of its product offering, competitive position and the regulatory environment in which the Company operates, anticipated trends and challenges in the Company's business and the markets in which it operates, third-party claims of infringement or violation of, or other conflicts with, intellectual property rights, the resolution of any legal matters, and the acceptance by the Company's consumers and the marketplace of new technologies and solutions.

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and we cannot assure that actual results will be consistent with these forward-looking

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statements. Given these risks, uncertainties and assumptions, any investors or users of this document should not place undue reliance on these forward-looking statements.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors that are discussed in greater detail in the "Risk Factors" section of the Company's current annual information form available at [www.sedar.com](http://www.sedar.com) which risk factors are incorporated herein by reference.

The forward-looking statements made in this MD&A relate only to events or information as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except as required by law, we do not assume any obligation to update or revise any of these forward-looking statements to reflect events or circumstances after the date of this MD&A, including the occurrence of unanticipated events. A reader should review this MD&A with the understanding that our actual future results may be materially different from what we expect.

### **Company Overview**

Formerly known as A-Labs Capital I Corp, BANXA Holdings Inc is a continuation of the business activities of BTC Holdings Pty Ltd. Banxa is an Australian/European/North American based payment service provider (PSP) and Reg-tech company focused on bridging the gap between traditional "mass market" legacy financial institutions and processes and the digital asset space. The Company commenced operations in March 2014 as a bitcoin miner and B2C business, before moving the business model into payment infrastructure and compliance systems to facilitate fiat/cash (currencies such as USD, AUD, CAD and EUR) to digital asset conversions with a focus on B2B business.

The Company has a payment gateway infrastructure that includes online payments across multiple currencies and payment types. With both global and local payment options, BANXA is also able to offer those payment and compliance rails to major crypto industry players. Global exchanges and wallets can utilize BANXA's B2B platform to offer their users a fast and reliable fiat to crypto conversion service (and vice versa) within our partner's platforms. They benefit from the extensive groundwork in countries where Banxa is represented in and compliance with local laws and international Anti Money Laundering / Know Your Client (AML/KYC) standards. This service allows our partners to focus on their crypto currency business without touching payments and fiat currency.

BANXA has built a strong position in the Australian market and, since the acquisition of EUIV in June 2020, has been focusing on international expansion and the exploitation of new growth markets.

The Company focuses on acting as a gateway between the traditional fiat currencies and cryptocurrencies, rather than competing with traditional open book cryptocurrency exchanges which facilitate crypto to crypto trading.

The irreversible nature of cryptocurrency transactions presents a unique challenge for platforms aiming to on-board users via traditional reversible fiat payment rails. This challenge is further increased by Anti-Money Laundering regulation coalescing globally to enforce consistent requirements for companies providing fiat-to-crypto and crypto-to-fiat conversion services.

BANXA earns revenue from the sale of crypto-currencies, commission fees and/or spread. It is therefore a "flow" based business, similar to international forex companies such as PayPal, TransferWise or Ant Financial and Australian forex company OFX.

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BANXA, through its subsidiary Global Internet Ventures Pty Ltd, is a registered digital currency exchange provider with the Australian Transaction Reports and Analysis Centre (AUSTRAC), the peak government body for overseeing financial transaction compliance in Australia. BANXA's European subsidiaries are also registered in The Netherlands and Lithuania as well as with Fintrac in Canada.

BANXA's technology platform utilises Machine Learning and Liquidity Management, conducts Anti-Money Laundering (AML) and Know Your Customer (KYC) checks on all its customers and is in compliance with the local laws of the jurisdictions in which it operates.

**B2B – FIAT Aggregator to the Digital Asset Industry**

BANXA offers a conversion widget/API product to third parties who require fiat on- and off-ramps, allowing the Company to embed its product deeply into the crypto ecosystem. We stand out from competitors by offering B2B clients a variety of payment methods, currencies, managed AML compliance and crypto-chargeback expertise.

Overheads associated with providing fiat-to-crypto services are high for a single exchange, but by implementing economies of scale, BANXA is able to reduce marginal costs of these overheads and allow consumers to seamlessly switch between fiat and crypto at a small cost. Our fiat-to-crypto gateway addresses an existing market gap, and we believe that our conversion widget will be a key enabler for more adoption and continued growth.

BANXA further combines payment infrastructure, fraud detection and mitigation and regulatory compliance into a single product, which increases our clients' addressable market and reduces their customer acquisition cost. We protect our clients from chargebacks and are able to process conversion requests in as little as a few minutes depending on the selected payment method and individual compliance requirements.

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**Non-IFRS Financial Measures – Adjusted EBITDA**

This MD&A references adjusted EBITDA, which is a non-IFRS financial measure. Adjusted EBITDA is not a recognized measure under IFRS, has no standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to adjusted EBITDA presented by other companies. Rather, it is provided as additional information to complement IFRS measures by providing further understanding of the Company’s results of operations from management’s perspective. Accordingly, adjusted EBITDA should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

We use non-IFRS financial measures to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We believe that securities analysts, investors, and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. There are certain limitations related to the use of non-IFRS financial measures versus their nearest IFRS equivalents. Investors are encouraged to review our financial statements and disclosures in their entirety and are cautioned not to put undue reliance on any non-IFRS financial measure and view it in conjunction with the most comparable IFRS financial measures. In evaluating non-IFRS financial measures, you should be aware that in the future we will continue to incur expenses similar to those adjusted in non-IFRS financial measures.

Adjusted EBITDA is a non-IFRS financial measure that we calculate as net loss before tax excluding depreciation and amortization expense, share based compensation expense, unrealized loss on inventory, finance expense, realized/unrealized gain on fair value of deposits, loss on fair value of derivative, and listing expenses. Adjusted EBITDA is used by management to understand and evaluate the performance and trends of the Company’s operations. The following table shows a reconciliation of adjusted EBITDA to net loss before tax, the most comparable IFRS financial measure, for the three months ended 30 September 2023 and 2022:

|   | <b>Three months<br/>ended<br/>30 September<br/>2023</b> | Three months<br>ended<br>30 September<br>2022 |
|---|---|---|
|   | <b>\$</b>   | <b>\$</b>                                     |
| Loss before tax                                       | <b>(2,131,637)</b>                                      | (1,491,653)                                   |
| Amortization and depreciation                         | <b>102,234</b>  | 105,440                                       |
| Realised loss (gain) on fair value of deposits        | -   | (15,027)                                      |
| Unrealised loss on fair value of derivative liability | <b>17,882</b>   |   |
| Share based compensation expense                      | <b>151,733</b>  | 517,931                                       |
| Finance expense                                       | <b>642,830</b>  | 48,325  |
| <b>Adjusted EBITDA</b>                                | <b>(1,234,840)</b>                                      | (834,984)                                     |

## **Financial Performance Review**

### **Revenue Recognition**

In presenting the revenues of the group, the Company's accounting revenue recognition policy makes a distinction between:

- Principal revenues (control of inventory, therefore risk, therefore 100% of the sale transaction is treated as revenue); and
- Agency transactions (no effective control of inventory, different risk profile, as Company is acting as agent only the net amount of the transaction is considered revenue).

### **Restatement of comparative numbers**

During the year ended June 30, 2023, management discovered two offsetting misstatements in accounting for revenue recorded during the period ended 30 September 2022.

Matter 1. Accounting for agency transactions.

The Company did not fully offset the cost of external fees charged by the Liquidity Providers and Merchants with the revenue, which resulted in overstatement of Revenue and Cost of Sales. The Company retrospectively updated the financial statements to correct the error. The restatement resulted in a decrease in Revenue and Cost of Sales.

Matter 2. Principal transactions accounted for as agency transactions.

The Company erroneously recognized a set of principal's sale transactions as agent's sales. Consequently, these transactions were presented on a net basis instead of a gross basis.

There was no impact on Gross profit and Net Loss from these corrections. The opening balance of the comparative statements of financial position, as well as Changes in Equity and Cash Flows were not affected by the adjustments.

The effect of the material restatement on the consolidated statement of profit or loss for the period ended 30 September 2022, is summarized below:

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**Restatement for 30 September 2022 comparatives (Continued)**

|   | <b>30 Sep 2022</b> | <b>Matter (1)</b>  | <b>Matter (2)</b> | <b>30 Sept 2022 Restated</b> |
|---|--------------------|--------------------|-------------------|------------------------------|
|   | <b>(\$)</b>        | <b>(\$)</b>        | <b>(\$)</b>       | <b>(\$)</b>                  |
| Sales revenue                                     |                    |                    |                   |                              |
| Sales of cryptocurrencies                         | 8,094,653          | -                  | 2,007,223         | 10,101,876                   |
| Integration revenue                               | 68,315             | -                  | -                 | 68,315                       |
| Commissions and spread from services              | 5,614,983          | (2,652,723)        | -                 | 2,962,260                    |
| <b>Total sales revenue by type</b>                | <b>13,777,951</b>  | <b>(2,652,723)</b> | <b>2,007,223</b>  | <b>13,132,451</b>            |
| Geographic regions                                |                    |                    |                   |                              |
| Australia   | 3,270,372          | (449,352)          | 340,009           | 3,161,029                    |
| North America                                     | 1,100,576          | (157,861)          | 119,448           | 1,062,163                    |
| Europe  | 9,407,003          | (2,045,510)        | 1,547,766         | 8,909,259                    |
| <b>Total sales revenue by geographical region</b> | <b>13,777,951</b>  | <b>(2,652,723)</b> | <b>2,007,223</b>  | <b>13,132,451</b>            |
| Cost of sales                                     | (10,973,811)       | (2,652,723)        | 2,007,223         | (10,328,311)                 |
| <b>Gross profit</b>                               | <b>2,804,140</b>   | <b>-</b>           | <b>-</b>          | <b>2,804,140</b>             |

**Revenue**

Total revenues increased by \$71,776,291 or 521% to \$85,554,242 during the three months ended 30 September 2023 from \$13,777,951 for the three months ended 30 September 2022 as more revenue was recognised on a principal basis as we fulfil from non-custodial wallets. This reduces transaction costs and also reduces risk because we custody the digital assets.

The following table shows the breakdown of the different components of revenue for the periods discussed:

|   | <b>Three months ended 30 September 2023</b> | <b>Three months ended 30 September 2022 (Restated)</b> |
|---|---|--|
|   | <b>\$</b>                                   | <b>\$</b>  |
| Sale of cryptocurrencies "Principal           | <b>71,766,129</b>                           | 10,101,876   |
| Integration revenue                           | <b>570,252</b>                              | 68,315   |
| Commissions and spread from services "Agency" | <b>13,217,861</b>                           | 2,962,260  |
| <b>Total revenue</b>                          | <b>85,554,242</b>                           | <b>13,132,451</b>                                      |



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The following table shows revenue by geographical regions:

|                      | Three months<br>ended<br>30 September<br>2023<br>\$ | Three months<br>ended<br>30 September<br>2022<br>\$ |
|----------------------|---|---|
| Australia            | 18,447,320  | 3,161,029   |
| North America        | 10,320,103  | 1,062,163   |
| Europe               | 56,786,819  | 8,909,259   |
| <b>Total revenue</b> | <b>85,554,242</b>                                   | <b>13,132,451</b>                                   |

**Results of Operations**

The following table sets forth a summary of our results of operations for the three months ended 30 September 2023 and 2022:

|  | Three months ended<br>30 Sept 2023<br>\$ | 30 Sept 2022<br>(Restated)<br>\$ |
|--|--|----------------------------------|
| <b>Revenue</b>   |  |                                  |
| Revenue from sale of goods and services                  | 85,554,242                               | 13,132,451                       |
| Cost of sales and services                               | (78,931,432)                             | (10,328,311)                     |
| <b>Gross profit</b>                                      | <b>6,622,810</b>                         | <b>2,804,140</b>                 |
| <b>Operating expenses</b>                                |  |                                  |
| Employment expenses                                      | (4,099,268)                              | (4,565,490)                      |
| Depreciation and amortisation                            | (102,234)                                | (105,440)                        |
| General, administration and other                        | (2,971,493)                              | (2,416,197)                      |
| Share based compensation                                 | (151,733)                                | (517,931)                        |
| <b>Total operating expenses</b>                          | <b>(7,324,728)</b>                       | <b>(7,605,058)</b>               |
| <b>Operating loss before other items and income tax</b>  | <b>(701,918)</b>                         | <b>(4,800,918)</b>               |
| <b>Other items</b>                                       |  |                                  |
| Realised gain on fair value of deposits (treasury coins) | -  | 15,027                           |
| Unrealised loss on fair value of derivative liability    | (17,882)                                 | -                                |
| Net foreign exchange gains/(losses)                      | (788,931)                                | 143,132                          |
| Other Income   | 19,924                                   | 3,199,431                        |
| Finance expenses   | (642,830)                                | (48,325)                         |
| <b>Total other items</b>                                 | <b>(1,429,719)</b>                       | <b>3,309,265</b>                 |
| Loss before tax  | (2,131,637)                              | (1,491,653)                      |
| Income tax benefit / (expense)                           | (14,276)                                 | (1,421)                          |
| <b>Net loss for the period</b>                           | <b>(2,145,913)</b>                       | <b>(1,493,074)</b>               |
| <b>Other comprehensive income</b>                        |  |                                  |
| <i>Items that may be reclassified to profit or loss</i>  |  |                                  |
| Foreign currency translation                             | 57,492                                   | (34,197)                         |
| <b>Total comprehensive loss</b>                          | <b>(2,088,421)</b>                       | <b>(1,527,271)</b>               |

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**Key Income Statement Components**

***Revenue from sale of goods and services***

The following table summarizes total revenue and breakdown by percent for the three months ended 30 September 2023 and 2022:

|   | <b>Three months<br/>ended<br/>30 September<br/>2023</b> | Three months<br>ended<br>30 September<br>2022<br>(Restated) | <b>% Change</b> |
|---|---|---|-----------------|
|   | \$  | \$  |                 |
| Sale of cryptocurrencies “Principal”          | <b>71,766,129</b>                                       | 10,101,876  | <b>610.4%</b>   |
| Integration revenue                           | <b>570,252</b>  | 68,315  | <b>734.7%</b>   |
| Commissions and spread from services “Agency” | <b>13,217,861</b>                                       | 2,962,260   | <b>346.2%</b>   |
| <b>Total revenue</b>                          | <b>85,554,242</b>                                       | 13,132,451  |                 |

The following table summarizes total revenue and breakdown by percent for the three months ended 30 September 2023 and 2022

|   | <b>Three months<br/>ended<br/>30 September<br/>2023</b> | Three months<br>ended<br>30 September<br>2022<br>(Restated) | <b>% Change</b> |
|---|---|---|-----------------|
| Sale of cryptocurrencies “Principal”          | <b>83.9%</b>  | 76.9%   | <b>7.0%</b>     |
| Integration revenue                           | <b>0.7%</b>   | 0.5%  | <b>0.2%</b>     |
| Commissions and spread from services “Agency” | <b>15.4%</b>  | 22.6%   | <b>-7.2%</b>    |
| <b>Total revenue</b>                          | <b>100.0%</b>   | 100.0%  |                 |

*Commissions and spread from services* – represent revenues from BNXA’s business on an “Agency basis”.

*Sale of cryptocurrencies* - represents revenues from BNXA’s business operations on a “Principal basis”.

*Integration revenue* - represents revenues from setup fees charged to partners.

Total revenues increased by \$72,421,791 or 551% to \$85,554,242 during the three months ended 30 September 2023 from \$13,132,451 for the three months ended 30 September 2022.

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***Cost of sales and services***

The following table summarizes the cost of revenue for the three months ended 30 September 2023 and 2022:

|                            | <b>Three months ended<br/>30 September<br/>2023</b> | Three months ended<br>30 September<br>2022<br>(Restated) | <b>% Change</b> |
|----------------------------|---|--|-----------------|
|                            | \$  | \$   |                 |
| Cost of sales and services | <b>78,931,432</b>                                   | 10,328,311   | <b>664.2%</b>   |
| % of total revenue         | <b>92.3%</b>  | 78.6%  |                 |

Movements in the percentage cost of sales achieved between periods are impacted by the sales mix between agency (net sales) and principal (gross sales) as discussed above. The Cost of sales and services for the three months ended 30 September 2022 increased from 78.6% for the prior year period to 92.3% of total revenue. Management considers the net “take rate” (refer below) a more meaningful measure of operating performance.

***Gross margin on TTV and net take rate***

The following table summarizes the gross margin on TTV for the three months ended 30 September 2023 and 2022 (TTV represents Total Transaction Value):

|                                   | <b>Three months ended<br/>30 September 2023</b> | Three months ended<br>30 September 2022 | <b>% Change</b> |
|-----------------------------------|---|---|-----------------|
|                                   | \$  | \$                                      |                 |
| <b>TTV</b>                        | <b>201,865,075</b>                              | 120,174,814                             | <b>68.0%</b>    |
| <b>Revenue</b>                    | <b>84,983,990</b>                               | 13,064,136                              | <b>550.5%</b>   |
| <b>% of TTV</b>                   | <b>42.1%</b>                                    | 10.9%                                   | <b>31.5%</b>    |
| <b>Gross margin on TTV</b>        | <b>6,052,558</b>                                | 2,735,825                               | <b>121.2%</b>   |
| <b>% of TTV – “net take rate”</b> | <b>2.8%</b>                                     | 2.3%                                    | <b>0.5%</b>     |

Gross margin as a percentage of TTV, (“net take rate”), has increased approximately 0.5% from the three months ended 30 September 2022 to 30 September 2023. Following the year ended 30 June 2023, management identified a number of operational improvements which helped optimize the results achieved.

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***Operating expenses***

The following table provides the operating expenses for the three months ended 30 September 2023 and 2022:

|                                   | <b>Three months<br/>ended<br/>30 September<br/>2023<br/>\$</b> | Three months<br>ended<br>30 September<br>2022<br>\$ | <b>%<br/>Change</b> |
|-----------------------------------|--|---|---------------------|
| Employment expenses               | <b>4,099,268</b>   | 4,565,490   | <b>-10.2%</b>       |
| Depreciation and amortisation     | <b>102,234</b>   | 105,440   | <b>-3.0%</b>        |
| General, administration and other | <b>2,971,493</b>   | 2,416,197   | <b>23.0%</b>        |
| Share based compensation          | <b>151,733</b>   | 517,931   | <b>-70.7%</b>       |
| Total operating expenses          | <b>7,324,728</b>   | 7,605,058   | <b>-3.7%</b>        |
| % of total revenue                | <b>8.6%</b>  | 57.9%   |                     |

***Amortization and depreciation***

Amortization and depreciation expense relates to property, plant, and equipment and right of use assets. Depreciation of property, plant, and equipment assets includes fixtures and fittings of \$ 8,593 (30 September 2022 - \$12,219), computer equipment of \$ 108 (30 September 2022 - \$ Nil), and leasehold improvements of \$ 28,969 (30 September 2022 - \$28,657). Right-of-use assets had a depreciation of \$ 64,563 (30 September 2022 - \$64,564).

***Employment expenses***

Salary expenses decreased by 10.2% or \$226,386 to \$466,222 to \$4,099,268 for the three months ended 30 September 2023 from \$4,565,490 for the three months ended 30 September 2022. As at 30 September 2023 the Company had 147 employees.

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**General, administration, and other**

The following table summarizes the general, administration, and other expenses for the three months ended 30 September 2023 and 2022:

|  | <b>Three months ended</b>    |                      |                     |
|--|------------------------------|----------------------|---------------------|
|  | <b>30 September<br/>2023</b> | 30 September<br>2022 | <b>%<br/>Change</b> |
|  | (\$)                         | (\$)                 |                     |
| <b>General, administration and other</b>       |                              |                      |                     |
| Bank charges                                   | 191,685                      | 51,994               | 269%                |
| Chargeback expenses                            | 68,289                       | 104,282              | -35%                |
| Rental expense relating to operating leases    | 126,562                      | 43,844               | 189%                |
| Travel   | 90,442                       | 201,217              | -55%                |
| Software development                           | 533,338                      | 672,054              | -21%                |
| Legal, accounting, consulting                  | 1,336,407                    | 949,720              | 41%                 |
| Marketing and advertising                      | 75,559                       | (70,840)             | 207%                |
| Investor relations                             | 149,612                      | 229,361              | -35%                |
| Insurance                                      | 83,005                       | 58,062               | 43%                 |
| Donations                                      | -                            | 6,766                | -100%               |
| Recruitment                                    | 134,859                      | 10,915               | 1136%               |
| Other  | 181,735                      | 158,822              | 14%                 |
| <b>Total general, administration and other</b> | <b>2,971,493</b>             | <b>2,416,197</b>     | <b>23%</b>          |
| <br>   |                              |                      |                     |
| % of total revenue                             | 3.5%                         | 18.4%                |                     |
| % of TTV                                       | 1.5%                         | 2.0%                 |                     |

Bank charges increased by 269% or \$139,691 from \$51,994 for the three months ended 30 September 2022 to \$51,994 for the three months ended 30 September 2023.

Chargeback expenses decreased by 35% or \$ 35,993 from \$104,282 for the three months and three months ended 30 September 2022 to \$ 68,289 for the three months 30 September 2023.

Rental expenses increased by 189% or \$82,718 from \$43,844 for the three months ended 30 September 2022 to \$126,562 for the three months ended 30 September 2023.

Travel expenses decreased by 55% or \$110,775 from \$201,217 for the three months ended 30 September 2022 to \$90,442 for the three months ended 30 September 2023.

Software development expenses decreased by 21% or \$138,716 from \$672,054 for the three months ended 30 September 2022 to \$533,338 for the three months ended 30 September 2023.

Legal, accounting and consulting expenses increased by 41% or \$386,687 from \$949,720 for the three months ended 30 September 2022 to \$1,336,407 for the three months ended 30 September 2023.

Marketing and advertising increased by 207% or \$ 146,399 from recovery of \$70,840 for the three months ended 30 September 2022 to \$75,559 for the three months ended 30 September 2023.

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Investor relations expenses decreased by 35% or \$79,749 from \$229,361 for the three months ended 30 September 2022 from \$149,612 for the three months ended 30 September 2023.

Insurance costs increased by 43% or \$24,943 from \$58,062 for the three months ended 30 September 2022 to \$83,005 for the three months ended 30 September 2023.

Donations decreased by \$6,766 from \$6,766 for the three months ended 30 September 2022 to \$Nil for the three months ended 30 September 2023.

Recruitment cost significantly increased by 1,136% or \$123,944 from \$10,915 for the three months ended 30 September 2022 to \$134,859 for the three months ended 30 September 2023.

Other expenses increased by 14% or \$22,913 from \$158,822 for the three months ended 30 September 2022 to \$181,735 for the three months ended 30 September 2023.

***Foreign Exchange Gains or (Losses)***

Foreign exchange loss for the three months ended 30 September 2023 of \$788,931 (30 September 2022 – gain of \$143,132) includes realized foreign exchange loss of \$393,466 (30 September 2022 – loss of \$330,472) and unrealized foreign exchange loss of \$395,465 (30 September 2022 – gain of \$473,604).

|  | <b>Three months<br/>ended<br/>30 September<br/>2023</b> | Three months<br>ended<br>30 September<br>2022 |
|--|---|---|
|  | \$  | \$  |
| <b>Net foreign exchange losses</b>           | <b>\$</b>   | <b>\$</b>                                     |
| Realised Foreign exchange (gains)/losses     | <b>393,466</b>  | 330,472                                       |
| Unrealised Foreign exchange (gains)/losses   | <b>395,465</b>  | (473,604)                                     |
| <b>Total Foreign exchange (gains)/losses</b> | <b>788,931</b>  | <b>(143,132)</b>                              |
| <br>   |   |   |
| % of total revenue                           | <b>0.92%</b>  | -1.09%  |
| % of TTV                                     | <b>0.39%</b>  | -0.12%  |

Foreign exchange loss of \$788,931 includes realized foreign exchange loss of \$393,466 mainly due settlements from global payment processors and unrealized foreign exchange gain of \$395,465 which is due the revaluation of the intercompany payment and receivables at the end of each month.

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**Other Items**

The following table provides a breakdown of other income and (expenses) by type for the three months ended 30 September 2023 and 2022:

|   | Three months ended<br>30 September 2023 | Three months ended<br>30 September 2022 | % Change     |
|---|---|---|--------------|
|   | \$                                      | \$                                      |              |
| Realised gain (loss) on fair value of deposits        | -                                       | 15,027                                  | -100%        |
| Unrealised loss on fair value of derivative liability | (17,882)                                | -                                       | 100%         |
| Other income  | 19,924                                  | 3,199,431                               | -99%         |
| Foreign exchange gains (losses)                       | (788,931)                               | 143,132                                 | -651%        |
| Finance expense                                       | (642,830)                               | (48,325)                                | 1230%        |
| <b>Total other items</b>                              | <b>(1,429,719)</b>                      | <b>3,309,265</b>                        | <b>-143%</b> |
| % of total revenue                                    | -1.7%                                   | 25.2%                                   |              |
| % of TTV  | -0.7%                                   | 2.8%                                    |              |

The major item included in Other Items is foreign exchange gains (losses) of \$788,931 for the three months ended 30 September 2023 (30 September 2022 – gain of \$143,132).

Total other items decreased by \$4,738,984 from \$3,309,265 in the three months ended 30 September 2022 for a reduction of \$1,429,719 for the three months ended 30 September 2023. The other income decline from \$3,199,431 in the three months ended 30 September 2022 to \$19,924 for the three months ended 30 September 2023 is due to the sale in the prior year by the Company of three of its non-core domain names: website assets -coinloft.com.au, buyabitcoin.com.au and the premium domain - bitcoin.com.au (domain names formerly part of Banxa's B2C (business to consumer) offering before the company refocused its business to serve the B2B (business to business)) to one of Australia's leading cryptocurrency exchanges, Independent Reserve Pty Ltd.

Other items for the three months ended 30 September 2023 includes realized gain on fair value of deposits of \$Nil (30 September 2022 - \$15,027), unrealized loss on fair value of derivative liability of \$17,882 (30 September 2022 - \$Nil), other income of \$19,924 (30 September 2022 –\$3,199,431) and finance expense of \$642,830 (30 September 2022 - \$48,325).

**Selected Quarterly Information**

|   | Quarter ending<br>30.09.23 | Quarter ending<br>30.06.23 | Quarter<br>ending 31.03.23<br>(Restated) | Quarter<br>ending 31.12.22<br>(Restated) | Quarter<br>ending 30.09.22<br>(Restated) | Quarter ending<br>30.06.22<br>(Restated) | Quarter ending<br>31.03.22<br>(Restated) | Quarter ending<br>31.12.21<br>(Restated) |
|---|----------------------------|----------------------------|--|--|--|--|--|--|
|   | \$                         | \$                         | \$                                       | \$                                       | \$                                       | \$                                       | \$                                       | \$                                       |
| Total revenue   | 85,554,242                 | 25,489,106                 | 21,417,920                               | 20,312,155                               | 13,132,451                               | 24,634,260                               | 17,863,320                               | 12,798,817                               |
| (Loss) / income from operations before other items and income tax | (701,918)                  | (4,605,951)                | 847,170                                  | (1,680,896)                              | (4,800,918)                              | (10,394,668)                             | (2,658,715)                              | 1,530,498                                |
| Net loss after tax  | (2,145,913)                | (7,018,964)                | 608,539                                  | (1,456,856)                              | (1,493,074)                              | (9,096,832)                              | (4,934,044)                              | (1,895,620)                              |
| Comprehensive loss  | (2,088,421)                | (6,555,648)                | 583,684                                  | (2,138,328)                              | (1,527,271)                              | (8,314,034)                              | (5,168,699)                              | (1,959,001)                              |
| Basic and diluted loss per common share                           | (0.05)                     | (0.14)                     | 0.01                                     | (0.03)                                   | (0.03)                                   | (0.18)                                   | (0.12)                                   | (0.04)                                   |

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**Key Quarterly Trends**

Total revenue has increased during last quarter primarily due to more revenue being recognised on a principal basis.

Banxa's has delivered increasing transactions volumes each quarter, and over the last quarter it has delivered a Loss from Operations of \$701,918 compared to \$4.8M in the preceding quarter.

Net loss after tax has decreased by from the prior quarter. Some key non-operational variances include:

- Foreign exchange gain of \$788,931
- Finance expense of \$642,830
- Employment expense of \$4,099,268

**Key Balance Sheet Components**

The following table provides a summary of the key balance sheet components as at 30 September 2023 and 30 June 2023:

|                             | 30 September 2023 | 30 June 2023      |
|-----------------------------|-------------------|-------------------|
|                             | \$                | \$                |
| Cash                        | 1,770,983         | 8,258,814         |
| Trade and other receivables | 8,141,423         | 4,069,483         |
| Inventories                 | 368,767           | 183,992           |
| Prepays                     | 568,547           | 447,581           |
| Property, plant & equipment | 298,212           | 331,037           |
| Right-of-use assets         | 440,580           | 505,143           |
| <b>Total assets</b>         | <b>14,370,562</b> | <b>16,523,708</b> |
| Trade and other payables    | 7,369,761         | 8,331,456         |
| Borrowings                  | 6,315,139         | 5,242,796         |
| Lease liabilities           | 726,460           | 821,975           |
| <b>Total liabilities</b>    | <b>18,521,044</b> | <b>18,737,502</b> |

Total assets decreased by \$2,153,146 during the three months ended 30 September 2023, driven primarily by decreases in cash of \$6,487,831 (refer Cash Flow section) and increases in trades and other receivables of \$4,071,940. Total liabilities decreased by \$216,458 during the three months ended 30 September 2023, driven primarily by decreased trade and other payables of \$961,695.



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***Trade and other receivables***

The following table provides a breakdown of trade and other receivables as at 30 September 2023 and 30 June 2023

|  | <b>30 September 2023</b> | 30 June 2023 |
|--|--------------------------|--------------|
|  | (\$)                     | (\$)         |
| Payment gateway receivables              | <b>5,267,624</b>         | 3,719,571    |
| Allowances for chargeback expenses       | <b>(475,990)</b>         | (573,768)    |
| GST receivable                           | -                        | 265,659      |
| Receivables from trading exchanges       | <b>2,396,215</b>         | 164,948      |
| Integration Fees                         | <b>859,470</b>           | 441,600      |
| Sundry deposit denominated in USD Tether | <b>33,088</b>            | 37,639       |
| Other receivables                        | <b>61,016</b>            | 13,834       |
| <b>Total trade and other receivables</b> | <b>8,141,423</b>         | 4,069,483    |

Total trade and other receivables increased by \$4,071,940 during the three months ended 30 September 2023. Trade receivables includes receivables from exchanges including fiat held at exchanges or with custodians of \$2,396,215 which are at call.

***Inventory***

The following table provides a breakdown of inventory as at 30 September 2023 and 30 June 2023:

|                                 | <b>30 September 2023</b> | 30 June 2023 |
|---------------------------------|--------------------------|--------------|
|                                 | \$                       | \$           |
| Crypto currency held for resale | <b>368,767</b>           | 183,992      |
| <b>Total Inventory</b>          | <b>368,767</b>           | 183,992      |

Crypto currency and liquidity inventories are measured at fair value less cost to sell in accordance with the Company's accounting policy for crypto currencies and in accordance with IAS 2 Inventories.

Management considers the fair value of inventories to be a Level 2 input under IFRS 13 Fair Value Measurement ("IFRS 13") fair value hierarchy. There has been no change to the valuation technique during the period.

The Consolidated Entity's realized gain or loss on inventories is calculated as the proceeds received from the sale of cryptocurrencies less its assigned original cost. Subsequent to initial recognition at cost, the cryptocurrencies are held at fair value less costs to sell. Changes in value of cryptocurrencies are included in profit and loss for the period.

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|                        | 30 September 2023    |                | 30 June 2023         |                |
|------------------------|----------------------|----------------|----------------------|----------------|
|                        | Number of coins held | Value          | Number of coins held | Value          |
|                        |                      | \$             |                      | \$             |
| Bitcoin (BTC)          | 1.82                 | 66,163         | 1.27                 | 58,546         |
| Ethereum (ETH)         | 10.59                | 23,308         | 8.72                 | 25,363         |
| Loopring (LRC)         | 16,522.02            | 2,814          | 23,114               | 8,051          |
| USD Coin (USDC)        | 58,592.40            | 91,148         | 9,851                | 14,833         |
| Tether (USDT)          | 110,743.67           | 171,547        | 35,442               | 53,352         |
| Other                  | 271,890.63           | 13,787         | 287,598              | 23,847         |
| <b>Total inventory</b> | <b>457,761</b>       | <b>368,767</b> | <b>356,015</b>       | <b>183,992</b> |

**Trade and other payables**

The following table provides a breakdown of trade and other payables as at 30 September 2023 and 30 June 2023:

|  | 30 September 2023 | 30 June 2023     |
|--|-------------------|------------------|
|  | (\$)              | (\$)             |
| Trade payables                             | 1,571,142         | 1,156,255        |
| Employee withholdings payable              | 123,605           | 262,539          |
| Other payables and accruals <sup>(1)</sup> | 5,675,014         | 6,912,662        |
| <b>Total trade and other payables</b>      | <b>7,369,761</b>  | <b>8,331,456</b> |

<sup>(1)</sup>30 June 2023, includes Worldpay overpayment and Income in advance (\$793,206.8) for Integration fees

**Borrowings**

The following table provides a breakdown of borrowings as at 30 September 2023 and 30 June 2023:

|                                 | 30 September 2023 | 30 June 2023 |
|---------------------------------|-------------------|--------------|
|                                 | (\$)              | (\$)         |
| Loan Other                      | 6,315,139         | 5,242,796    |
|                                 | 6,315,139         | 5,242,796    |
| Less current portion            | 6,315,139         | 5,242,796    |
| <b>Borrowings – non-current</b> | <b>-</b>          | <b>-</b>     |

During the period ended 30 September 2023, BTC Corporation Holdings Pty Ltd, a Company subsidiary, entered into loan agreements with each of Tiga, Perion, Ari Last and HB Super Holdings pursuant to which Tiga, Perion, Ari Last and HB Super Holdings has provided BTC with a revolving credit facility in the principal sums of up to AUD\$2,000,000, USD\$1,500,000, USD\$400,000 and USD\$250,000 respectively. The revolving credit facility with Tiga, Buzz, Ari and HB Super accrues interest at the rate of 20%, 25%, 25% and 25% per annum respectively. Company also entered into a loan agreement with Alam Group of Companies Inc. ("ALAM") pursuant to which ALAM provided BTC CAD\$0.5 million at 25% per annum.

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In Oct 2022, Banxa Holdings Inc. (the “Company”) issued to the Investor a convertible debenture (the “Notes”) for a total investment of up to \$3,500,000 (funding amount), bearing interest at 10% per annum (accruing monthly and payable starting May 16, 2023) for a duration of two years. The principal of the security is convertible, at the option of the holder, to common shares of Banxa at a price of \$1.27, and the accrued interest is convertible, at the option of the holder, equal to 85% of market share on the last trading date prior to relevant conversion; and shall issue to the Investor up to 2,673,228 warrants (the “Warrants”) each warrant entitles the holder to purchase one common share at a price of \$1.27 per share for a period of 24 months from the date of issuance of the convertible note. Proceeds received from convertible note is \$3,878,295 (\$3,350,000CAD) and as of 30 June 2023, amount of \$656,975 was repaid to issuer and further \$553,198 was paid in the current period.

**Related Party Transactions**

All related party transactions were measured at the amount of consideration established and agreed to by the related parties. All amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

- a) Remuneration of directors and key management personnel of the Company was as follows:

|  | <b>Three months ended</b> |                   |
|--|---------------------------|-------------------|
|  | <b>30 September 2023</b>  | 30 September 2022 |
|  | (\$)                      | (\$)              |
| Salaries   | <b>881,599</b>            | 1,017,181         |
| Consulting fees including reimbursements at cost | <b>102,548</b>            | 92,580            |
| Director’s fees                                  | <b>108,573</b>            | 78,859            |
| Share-based compensation                         | <b>86,895</b>             | 517,224           |
| <b>Total</b>                                     | <b>1,179,615</b>          | 1,705,844         |

Key management personnel were not paid post-employment benefits, termination benefits, or other (non share-based) long-term benefits during the period ended 30 September 2023 (30 September 2022: nil)

- b) The Consolidated Entity entered into the following transactions with related parties:

|   | <b>Three months ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>30 September 2023</b>  | 30 September 2022 |
|   | (\$)                      | (\$)              |
| Proceeds from loans for trade working capital <sup>1</sup>                | <b>2,500,000</b>          | 2,000,000         |
| Repayment of loans for trade working capital <sup>1</sup>                 | <b>(2,000,000)</b>        | (2,000,000)       |
| Proceeds of cryptocurrency loans for trade working capital <sup>2</sup>   | -                         | 231,511           |
| Repayments of cryptocurrency loans for trade working capital <sup>2</sup> | -                         | (231,511)         |
| Interest paid to related parties <sup>1</sup>                             | <b>(10,685)</b>           | 27,361            |
| Proceeds from loans received from directors                               | -                         | 498,500           |
| Repayments of loans to directors  | -                         | (198,500)         |
| Purchase of crypto currency from director                                 | <b>260</b>                | (200)             |
| <b>Total</b>  | <b>489,575</b>            | 327,161           |

<sup>(1)</sup>The loans were received from two entities that have a common director with the Company. These were short term revolving facilities (less than 30 days settlement) and the interest rate was 30%.

<sup>(2)</sup> The cryptocurrency loans were received from a Director of the Company

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- c) As at 30 September 2023, included in trade and other payables is a balance of \$62,966 (30 June 2023: \$23,927) payable to related parties as follows:

|                          | <b>30 September 2023</b> | 30 June 2023 |
|--------------------------|--------------------------|--------------|
|                          | (\$)                     | (\$)         |
| Directors of the Company | <b>38,309</b>            | -            |
| Officers of the Company  | <b>24,657</b>            | 23,927       |
| <b>Total</b>             | <b>62,966</b>            | 23,927       |

### **Off-Balance Sheet Arrangements**

As of the date of this MD&A, the Company has no off-balance sheet arrangements.

### **Liquidity and Capital Resources**

As at 30 September 2023 the Company had \$1,770,983 in cash compared to \$8,258,814 as at 30 June 2023, The decrease in cash is due to negative working capital was \$7,280,338 as at 30 September 2023 compared to \$5,275,116 as at 30 June 2023. Negative working capital is primarily caused by changes in trade receivables which increased by \$4,071,940 during the three months ended 30 September 2023 (trade receivables includes receivables from exchanges including fiat held at exchanges or with custodians of \$2,396,215 which are at call) and borrowings amounting to \$6,315,139 (30 June 2023: \$ 5,242,796).

During the three months ended 30 September 2023, the Company had a net decrease in cash and cash equivalents held of \$6,487,831 compared to \$1,105,199 during the year ended 30 June 2023.

### **Cash Flow and Operating Expenses**

The Company is currently in a growth phase, and that is reflected in increasing operating expenses. In particular, Cost of sales and Salary expenses for the three months ended 30 September 2023 compared three months ended 30 September 2022

#### *Summary of Changes in Operating Expenses and Cash Flow*

- The Company historically incurred losses, as well as reported net cash outflows from operating activities. During the three months ended 30 September 2023, the Company used cash of \$10,096,231 in operating activities, mainly attributed to the loss during the period, and impacts on working capital as detailed below:
  - An increase in trade & receivables of \$4,498,879
  - A decrease in trades & other payables of \$1,438,727
  - An increase of digital currencies inventory of \$184,775
  - An increase in prepaid expenses of \$120,966
  - Offsetting the above cash outflows, are the increase in provision of \$60,952 and increase in income tax payable \$198.
  - Non-cash items include depreciation & amortization of \$ 102,234 share-based compensation of \$ 151,733, finance cost of \$642,830, unrealized foreign exchange loss of \$395,465, unrealized fair value adjustment to derivative liability of \$17,882, deferred tax assets of \$1,433 and current income tax benefit of \$121,155.

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- Total transaction value (TTV) has increased to \$201,865,075 during the three months ended 30 September 2023 from approximately \$120,174,814 during the three months ended 30 September 2022.
- Employment expense for the three months ended 30 September 2023 decrease by \$466,222 from \$4,565,490 on 30 September 2022 to \$4,099,268 during the current quarter.
- Share based compensation for the three months ended 30 September 2023 decreased by \$366,198 from \$517,931 on 30 September 2022 to \$151,733 during the current quarter.

**Cash Flow Summary**

The following table provides a summary of cash inflows and outflows by activity for the three months ended 30 September 2023 and 2022:

|  | Three months ended<br>30 September 2023 | Three months ended<br>30 September 2022 |
|--|---|---|
|  | \$                                      | \$                                      |
| Cash provided (used) in operating activities*  | (6,678,892)                             | (2,702,260)                             |
| Cash provided (used) in investing activities   | (4,845)                                 | (1,875,000)                             |
| Cash provided (used) in financing activities   | (5,099)                                 | 417,907                                 |
| Net (decrease) increase in cash for the period | (6,688,836)                             | (4,159,353)                             |

***Cash used in operating activities***

Cash used in operating activities was \$6,678,892 in the three months ended 30 September 2023 and significantly increased by \$3,976,632 compared to \$2,702,260 in 30 September 2022 primarily driven by:

- Net loss for the year of \$2,145,913
- An increase in trade & receivables of \$4,498,879
- A decrease in trades & other payables of \$1,438,727
- An increase of digital currencies inventory of \$184,775
- An increase in prepaid expenses of \$120,966
- Offsetting the above cash outflows, are the increase in provision of \$60,952 and increase in income tax payable \$198.
- Non-cash items include depreciation & amortization of \$102,234 share-based compensation of \$151,733, finance cost of \$642,830, unrealized foreign exchange loss of \$395,465, unrealized fair value adjustment to derivative liability of \$17,882, deferred tax assets of \$1,433 and current income tax benefit of \$121,155.

***Cash used in investing activities***

Our investing activities consist primarily of purchase of property & equipment. For the three months ended 30 September 2023, cash used in the purchase of property & equipment was \$4,845 (30 September 2022 - \$Nil), purchase of other assets was \$Nil (30 September 2022 - \$750,000) and increase of other receivable was \$Nil (30 September 2022 - \$1,125,000).

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***Cash provided by financing activities***

Historically, our financing activities have consisted primarily of the issuance of our common shares.

For the three months ended 30 September 2023 and 30 September 2022 the Company had \$Nil net proceeds from new share issues. The Company increased its net borrowings by \$1,072,343 compared to \$300,000 during the three months ended 30 September 2022. The Company made lease repayments of \$107,307 during the three months ended 30 September 2023 compared to \$103,920 during the same period in 2022. The Company paid interest of \$416,937 during the three months ended 30 September 2023 compared to \$30,931 in same period in 2022. The Company also repaid convertible notes amounting to \$553,198 compared to \$Nil in the same period in 2022.

***Disclosure of Outstanding Shares***

Our authorized capital consisted of an unlimited number of common shares without par value. As of 30 September 2023, and the date of this MD&A, no preferred shares have been issued and the following common shares, and rights to acquire common shares, were outstanding:

| <b>Class of Security</b> | <b>Number outstanding as at 30<br/>September 2023</b> | <b>Number outstanding as at 30<br/>June 2023</b> |
|--------------------------|---|--|
| Common shares            | <b>45,563,056</b>                                     | 45,563,056                                       |
| Share purchase warrants  | <b>4,714,791</b>                                      | 4,714,791  |
| Stock options            | <b>4,533,138</b>                                      | 4,533,138  |

**Risks and Uncertainties**

The Company is subject to certain risks and uncertainties that could have a material adverse effect on the Company's results of operations, business prospects, financial condition and dividends to shareholders. Some, but not all, of such risks and uncertainties are discussed below and elsewhere in this MD&A. Readers should also refer to the Company's risks as described under the "Risk Factors" heading set out in the accompanying Financial Statement to which this MD&A is attached, which are specifically incorporated by reference in this MD&A.

In the normal course of business, the Consolidated Entity is exposed to financial risk that arises from a number of sources. Management's involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the Consolidated Entity, Management takes steps to avoid undue concentrations of risk.

### ***Digital asset risks***

Access to digital assets can be disrupted by a number of matters including:

- Loss of access risk, such as to private keys;
- Irrevocable transactions given that transactions cannot be changed or corrected once a transaction has been verified and recorded on the blockchain;
- Fluctuations in digital asset prices due to global forces, interest rate, exchange, inflation, political/economic conditions;
- Vulnerability of crypto networks to hacking; and
- Unregulated crypto exchanges.

The Company's investments in cryptocurrencies crypto currency holdings for liquidity purposes are held on various digital platforms, some of which are unregulated exchanges. The Company is exposed to counterparty risk in the event that one or more of these unregulated exchanges fail or suffer a security breach, resulting in the loss or theft of the Company's assets. The Company maintains a risk management framework to mitigate the risks associated with its investments in cryptocurrencies, including monitoring the creditworthiness of its counterparties and implementing security measures to protect its assets. However, there can be no assurance that these measures will be effective in all circumstances. The Company continually evaluates its crypto holdings for liquidity purposes in cryptocurrencies and may make changes to its portfolio or risk management framework as market conditions or regulatory requirements change.

### ***Financial risk management objectives***

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Company and appropriate procedures, controls and risk limits.

### ***Capital risk management***

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, to meet the needs of ongoing operations, and to maintain a flexible capital structure which optimizes the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk.

**Foreign currency risk**

The Consolidated Entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Consolidated Entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

|                     | Assets           |              | Liabilities      |              |
|---------------------|------------------|--------------|------------------|--------------|
|                     | 30 Sept 2023     | 30 Sept 2022 | 30 Sept 2023     | 30 Sept 2022 |
| <b>Consolidated</b> | \$               | \$           | \$               | \$           |
| US Dollars          | <b>3,792,545</b> | 2,852,160    | <b>301,966</b>   | 34,046       |
| Euros               | <b>1,533,101</b> | 261,516      | <b>3,299,849</b> | 13,145       |
| Pound sterling      | <b>666,054</b>   | 37,090       | <b>3,984</b>     | 1            |
| Canadian Dollars    | <b>427,539</b>   | 410,794      | <b>3,463,906</b> | 283,398      |
| Turkish Lira        | <b>89,555</b>    | 280          | <b>19,328</b>    | -            |
|                     | <b>6,508,794</b> | 3,561,840    | <b>7,089,033</b> | 330,590      |

The Consolidated Entity had net liabilities denominated in foreign currencies of \$580,239 (assets of \$6,508,794 less liabilities of \$7,089,033) as at 30 September 2023 (30 September 2022: net assets of \$3,231,250 (assets of \$3,561,840 less liabilities of \$330,590). Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 5% (2022: weakened by 10%/strengthened by 5%) against these foreign currencies with all other variables held constant, the Consolidated Entity's loss before tax for the year would have been \$58,024 lower/\$29,012 higher (2022: \$323,125 lower/\$161,562 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The realised foreign exchange loss for the period ended 30 September 2023 was \$393,466 (30 September 2022: loss of \$330,472).



### ***Price risk relating to digital assets***

Fluctuations in the prices of cryptocurrencies may impact the day-to-day trading volumes of the Consolidated Entity's exchange partners, and unfavorably impact the Consolidated Entity's revenues. Additionally, during periods of rapid price fluctuations, there is a risk that unfavorable trading margins may occur due to delays in filling orders.

### ***Interest rate risk***

The Company's has \$6,315,139 debt outstanding at 30 September 2023 that is exposed to interest rate risk of \$315,757 if the interest rate changed at +/-5%. (30 June 2023: \$262,130). The Company notes it pays a significantly higher cost of debt compared with the central bank rate.

### ***Credit risk***

The Company has credit risk in respect of both financial instruments and crypto-currency deposits. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has a strict code of credit, including obtaining agency credit information, confirming references, and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount of cash and cash equivalents (including cash deposits) and trade and other receivables, as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements. The Company does not hold any collateral.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 30 days. There is a liquidity management function within the business, which on a daily or more frequent basis manages and monitors the trading activities and volumes associated with amounts deposited with trading exchanges.

The Company limits its credit risk by placing its cryptocurrencies with crypto-exchanges ("trading exchanges") on which the Company has performed internal due diligence procedures. The Company deems these procedures necessary as some trading exchanges are unregulated and not subject to regulatory oversight. Furthermore, trading exchanges may engage in the practice of commingling with clients' assets in exchange wallets. When crypto assets are commingled, transactions are not recorded on the applicable blockchain ledger but are only recorded by the exchange, potentially reducing the integrity of the data. As at 30 September 2023, the Consolidated Entity held Receivables from trading exchanges of \$2,396,215 (30 June 2023: \$164,948). These amounts represent balances with exchanges or custodians that do not have system or organization control reporting available.

The Company's due diligence procedures around exchanges include, but are not limited to, internal control procedures around on-boarding new exchanges which includes review of the exchanges anti-money laundering ("AML") and know-your-client ("KYC") policies, obtaining a security ratings report by an independent third party on certain exchanges, constant review of market information specifically regarding the exchanges' security and solvency risk, setting balance limits for each exchange account based on risk exposure thresholds and preparing daily asset management reports

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to ensure limits are being followed and having a fail-over plan to move digital assets held on an exchange in instances where risk exposure significantly changes.

The Company limits its credit risk with respect to its payment gateways receivables by transacting with credit worthy counterparties that are believed to have sufficient capital to meet their obligations as they come due and, with regard to over-the-counter counterparties, on which the Company has performed the relevant AML and KYC procedures. As of each reporting period, the Company assesses if there may be expected credit losses requiring a provision.

While the Company intends to only transact with trading exchanges that it believes to be creditworthy, there can be no assurance that a trading exchange will not default and that the Company will not sustain a material loss on the transaction as a result. As of 30 September 2023, the Company does not expect any material unprovided loss of any of its digital assets.

**Liquidity risk**

Vigilant liquidity risk management requires the Consolidated Entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and (where required) available borrowing facilities to be able to pay debts as and when they become due and payable.

The Consolidated Entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and where practical matching the maturity profiles of financial assets and liabilities. In addition, as outlined above the daily liquidity management function monitors and manages amounts deposited with trading exchanges. The Consolidated Entity further manages all liquidity risk through maintaining a sufficient working capital amount through daily monitoring of controls, cash balances, and operating results.

The Consolidated Entity's trade payables and accruals are substantially due within twelve months. The maturity schedule of the Consolidated Entity's lease liabilities is detailed below.

| <b>30 September 2023</b>             | <b>2024</b>      | <b>2025</b>    | <b>2026</b> | <b>2027</b> | <b>Thereafter</b> |
|--------------------------------------|------------------|----------------|-------------|-------------|-------------------|
|                                      | \$               | \$             | \$          | \$          | \$                |
| <b>Commitment - operational</b>      |                  |                |             |             |                   |
| Trade payables                       | 1,571,142        | -              | -           | -           | -                 |
| Accrued wages and other              | 123,605          | -              | -           | -           | -                 |
| <b>Commitments - other</b>           |                  |                |             |             |                   |
| Lease payments                       | 331,918          | 443,239        | -           | -           | -                 |
| <b>Total contractual obligations</b> | <b>2,016,665</b> | <b>443,239</b> | -           | -           | -                 |
| <b>30 June 2023</b>                  | <b>2024</b>      | <b>2025</b>    | <b>2026</b> | <b>2027</b> | <b>Thereafter</b> |
|                                      | \$               | \$             | \$          | \$          | \$                |
| <b>Commitment - operational</b>      |                  |                |             |             |                   |
| Trade payables                       | 1,156,256        | -              | -           | -           | -                 |
| Accrued wages and other              | 262,539          | -              | -           | -           | -                 |
| <b>Commitments - other</b>           |                  |                |             |             |                   |
| Lease payments                       | 466,160          | 406,302        | -           | -           | -                 |
| <b>Total contractual obligations</b> | <b>1,884,955</b> | <b>406,302</b> | -           | -           | -                 |

## **Non-Financial Measures**

### **Critical Accounting Estimates**

The preparation of the consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, and the reported amount of revenues and expenses during the year. Actual results may differ from these estimates. Estimates, assumptions, and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized on a prospective basis beginning from the period in which they are revised.

### **Changes in Accounting Policies including Initial Adoption**

#### **Recent IFRS standards adopted in 2023-2024**

The Company has adopted all of the new or amended International Financial Reporting Standards (IFRSs) and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period.

Any new or amended Financial Reporting Standards or Interpretations that are not yet mandatory have not been early adopted.

### **Significant accounting policies**

The principal accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those applied for the audited financial statements of Banxa Holdings Inc. for the year ending 30 September 2023. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### **Controls and procedures**

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Company maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. The CEO and CFO have evaluated the design of the Company's disclosure controls and procedures at the end of the quarter and based on the evaluation, the CEO and CFO have concluded that the disclosure controls and procedures are effectively designed.

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***Internal Controls over Financial Reporting***

The management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The board of directors ("Board") annually appoints an audit committee which includes directors who are not employees of the Company. This committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. The shareholders' auditors have unrestricted access to the audit committee. The audit committee reviews the interim and annual financial statements, the report of the shareholders' auditors, and the interim and annual management's discussion and analysis and has delegated authority to approve the interim filings and makes recommendations to the Board regarding annual filings.

**Events after the reporting period**

On 10 October 2023 – Banxa Holdings Inc. announced subject to the acceptance by the TSX Venture Exchange (the "Exchange"), the Company intends to complete a non-brokered private placement (the "Private Placement") of convertible debenture units (the "Note Units") for gross proceeds of up to C\$6,000,000. Each Note Unit will consist of one unsecured convertible debenture (each, a "Note") and such number of common share purchase warrants in the capital of the Company (each, a "Warrant") equal to 40% of the number of common shares in the capital of the Company (each, a "Common Share") issuable upon conversion of the Note (as described below). Each Warrant will be exercisable for one Common Share at an exercise price of C\$1.00 for a period of 36 months from the date of issuance.

On 16 October, 2023 -- Banxa Holdings Inc. raised gross proceeds of C\$1.75M under the first tranche of its non-brokered private placement through the sale of convertible debenture units of the Company comprised of unsecured convertible debentures of the Company in the principal amount of C\$1.75M and 875,000 common share purchase warrants in the capital of the Company. Each warrant is exercisable into one common share in the capital of the Company at an exercise price of C\$1.00 for a period of 36 months from the date of issuance.

On 10 Nov 2023, The Company has fully paid the convertible debenture referred to in Note 12 for amount of C\$2,529,695.

On 15 November 2023 -- Banxa Holdings Inc. announced that further to its news release dated October 10, 2023, it has raised gross additional proceeds of C\$3.79M under the second tranche the private placement through the sale of convertible debenture units of the Company comprised of unsecured convertible debentures of the Company in the principal amount of C\$3.79M and 1,897,013 common share purchase warrants in the capital of the Company. Banxa has raised C\$5.54M to date in aggregate proceeds between the first and second tranche of its Private Placement.

On 8 December 2023 -- Banxa Holdings Inc. announced further to its news release dated October 10, 2023, it has raised additional gross proceeds of C\$150k under the third tranche of the private placement through the sale of convertible debenture units of the Company comprised of unsecured convertible debentures of the Company in the principal amount of C\$150k and 75,000 common share purchase warrants in the capital of the Company. The accumulated gross proceeds for the three tranches of the private placement now stands at C\$5.69m.