

XTM Inc.

CSE: PAID, OTCQB: XTMIF, FSE: 7XT
www.XTMINC.com

Management's Discussion and Analysis

For the periods ended March 31, 2022 and 2021

(This Management Discussion and Analysis, prepared by management, has not been reviewed by the Company's external auditor)

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INTRODUCTION

This Management’s Discussion and Analysis (“MD&A”) prepared as of May 24, 2022, reviews the financial condition and results of operations of XTM Inc. (the “Company” or “XTM”) for the period ended March 31, 2022 and all other material events up to the date of this report. The following discussion should be read in conjunction with a) the annual audited consolidated financial statements and related notes for the year ended December 31, 2021, and b) unaudited consolidated condensed interim financial statements for the three months ended March 31, 2021 together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. These statements can be found under the Company’s profile on SEDAR at www.sedar.com.

This MD&A has been prepared in compliance with the requirements of section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. The Company’s unaudited consolidated condensed interim financial statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretation Committee (“IFRIC”) All dollar amounts are in Canadian dollars, unless otherwise noted.

The Company’s certifying officers are responsible for ensuring that the audited consolidated financial statements and MD&A do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading considering the circumstances under which it was made. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of XTM’s Subordinate Voting Shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates the materiality in this regard referencing all relevant circumstances, including potential market sensitivity. The Company’s directors certify that the audited consolidated financial statements and MD&A present, in all material respects, the financial condition, results of operations and cash flows, of the Company as the date hereof.

ACCOUNTING PERIODS

The following Management’s Discussion & Analysis (“MD&A”) is based on information in the unaudited condensed consolidated interim financial statements and accompanying notes thereto for the period ended March 31, 2022. Comparative amounts in the unaudited consolidated interim financial statements and accompanying notes thereto are for the period ended March 31, 2021, and the year-ended December 31, 2021.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. All of the forward-looking statements made in this MD&A are qualified by these cautionary statements and those made in our other filings with applicable securities regulators in Canada. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law.

CORPORATE OVERVIEW

The Company's main business is as a fintech innovator disseminating earned wages and gratuities access to service workers in the hospitality and personal care space. XTM is the originator of the Today™ Solution, a bespoke solution specifically designed for restaurateurs and personal care services operators and their staff. It is comprised of a free mobile app and a Visa or Mastercard debit card with free banking features. Currently the solution is used by thousands of restaurants, salons and staff across Canada and now entering the United States.

The head office, principal address and registered office of the Company is located at 67 Mowat Avenue, Suite 437, Toronto, Ontario, Canada, M6K 3E3 and the head United States office is located at 1221 Brickel Ave Suite 900 Miami, FL. 33310

On March 10, 2020, the common shares of the Company were listed on the Canadian Securities Exchange under the trading symbol PAID.

On April 29, 2020, the common shares of the Company were listed on the Frankfurt Stock Exchange (Deutsche Boerse AG) under the symbol "7XT".

On March 5, 2021, XTM's shares started trading on the OTCQB Venture Market, a US trading platform that is operated by OTC Markets Group in New York. The Company's symbol is 'XTMIF".

At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company, as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. The Company's has noticed a substantial increase in the usage of the platform and corresponding program revenue as re-openings in Canada continued to take place during Q4 2021. However, the Company acknowledges that there is significant uncertainty in forecasting if the re-openings will continue into 2022. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

The potential continued duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments or quantify the impact this pandemic may have on the financial results and condition of the Company in future periods. The continued spread of COVID-19 may continue to pose challenges to the Company's business.

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RECENT EVENTS

The following notable events occurred after the period covered by the Company's Q1 2022 unaudited condensed consolidated financial statements and MD&A:

- In May 2022, the Company attended the Restaurant Canada Show held in Toronto Ontario, which is deemed the "Hospitality event of the year", and the largest show of its kind in Canada. The Company presented the topics of "Recruitment and Retention of Labour" with a panel featuring its Head of Business Development along with other industry experts, and "Motivate and Retain Employees with Same Day Pay and Gratuity Access" hosted by its VP Sales.
- In May 2022, the Company discontinued its bill payment feature for the Today program. The reason for the discontinuation is that the bill pay feature generated negative margin due to being a free way in which users could deplete the Today wallet of its funds while incurring a transactional cost for the Company and eliminating the possibility of interchange revenue from POS transactions. Users will now be required to utilize one of the three transaction methods to off load funds from their cards, all of which generate revenue for the Company in varying amounts.
- In May 2022, the Company successfully launched its equity compensation plan target at addressing a highly competitive labour market. The intent of the plan is to attract new talent, improve retention, and create goal congruence with the shared focus of increasing value for all of the Company's stakeholders.
- In April 2022, the Company appointed Veer Siddiqui as its Chief Operating Officer ("COO") and General Counsel. Establishing the COO role and bringing counsel in-house signifies an important turning point in the Company's maturity cycle, and further solidifies the solid management foundation it has created to aid in driving significant growth as it enters the US market and continues to sign global hospitality organizations on its Today platform.
- In April 2022, the Company decided it was in the best interest of shareholders to end negotiations pertaining to a strategic acquisition it had been pursuing due to the targets inability to 1) satisfy due diligence requirements and 2) agree to a financing structure in light of market conditions that was acceptable to the Company and investment community. The Company has pivoted, through alternate partner integrations, to develop solutions to address the market this acquisition would have targeted.

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HIGHLIGHTS FOR Q1 2022

The Company is pleased with the financial results in Q1 2022 as they were achieved largely under various levels of COVID lock down restrictions across Canada, and seasonally, during what is typically the lowest quarter for foot traffic in the hospitality space. Although COVID lockdowns have ended, restaurants are still ramping up to pre-pandemic business levels, two main challenges for restaurants have been reduced traffic in the financial and business districts as well as reduced operating hours due to staffing challenges. Our restaurant partners are seeing increased traffic and less staffing challenges as we move into the second quarter. The Company continues to add a significant amount of new locations and associated card holders each quarter, and continues development of its Today platform and complementary products such as Tiproll. The Company also continues to have a strong balance sheet yielding adequate working capital to fund organic growth needs beyond the next twelve months.

- Gross dollar value (“GDV”) loaded on the Company’s platform was just under \$70MM for the quarter with only one month of full openings in hospitality. This was the highest quarter in the Company’s brief history, and an increase of 313% from just under \$17MM for Q1 2021;
- Active users (defined as card holders completing a minimum of one transaction in a month) on the Company’s Today platform came in just under 49K, an increase of 37K or 323% from 12K at the end of fiscal 2021;
- Revenue of \$797K was strong for a quarter which seasonally is the slowest in hospitality, and was under lock down restriction for two of the three months; this was an increase of +\$543K or 214% compared to Q1 2021;
- Gross Profit was \$114K or 14.4% of revenue increased 56% or \$41K compared to \$73K or 28.8% of revenue for Q1 2021 with the percentage point drop due to a higher weighting of lower margin card sales and higher platform costs as the Company transitions clients from its 1.5 to 2.0 platform;
- Operating expenses were \$1,576K, an increase of 64% or \$612K compared to \$964K for Q1 2021 with the main driver being increase staffing and consulting fees to support the Company’s growth initiatives;
- Net loss was \$1,524K compared to a net loss of \$887K for Q1 2021;
- Cash totaled \$6.4MM at March 31, 2022, down -\$2MM from prior year end total of \$8.4MM with the decrease attributable to funding operational requirements and issuance of a short term promissory note to a strategic partner;
- Working capital of the Company was \$7.1MM at March 31, 2022, a decrease of \$1.3MM compared to working capital of \$8.4MM at December 31, 2021, with the decrease due to cash used in operations;
- During the quarter the Company successfully onboarded 224 new locations for its Tips Today program.

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SUMMARY OF ANNUAL RESULTS

KEY PERFORMANCE INDICATORS AND NON-IFRS MEASURES

The key performance indicators (“KPI’s”) and non-IFRS measures for the Company are gross dollar value load (“GDV”) and active users. The Company’s success will be measured by its growth in revenue from one reporting period to the next and is directly a result of increased dollar value transacted through its platform. Revenue growth is dependent on the Company continuing to sign on new hospitality locations, increase the percentage of GDV used for POS transactions, and the addition of new products to enhance current programs.

QUARTERLY RESULTS

The following table summarizes information derived from the Company’s consolidated financial statements as well as KPI’s the Company uses to assess performance, for each of the eight most recently completed quarters:

Quarter Ended	Financial Results					Key Performance Indicators	
	Revenue	Cost Of Goods Sold	Gross Profit	Net Income (loss)	Net Income (loss) per share	GDV	Active Users
	\$	\$	\$	\$	\$	\$MM's	#
March 31, 2021	796,623	682,239	114,384	(1,524,265)	(0.01)	69.8	48,767
December 31, 2021	868,500	752,185	116,315	(1,943,887)	(0.01)	65.2	40,997
September 30, 2021	861,326	471,690	389,636	(983,271)	(0.01)	48.7	25,182
June 30, 2021	396,742	220,753	175,989	(942,215)	(0.00)	23.1	15,982
March 31, 2021	254,079	180,862	73,217	(887,394)	(0.01)	16.9	11,538
December 31, 2020	278,436	363,191	(84,755)	(1,996,362)	(0.05)	12.1	11,705
September 30, 2020	201,936	66,526	135,410	(342,382)	(0.00)	11.9	7,519
June 30, 2020	204,755	187,366	17,389	(670,571)	(0.01)	5.7	4,623

⁽¹⁾ See “Definitions – IFRS, Additional GAAP and Non-GAAP Measures”

ANALYSIS OF FINANCIAL PERFORMANCE

NET LOSS AND COMPREHENSIVE LOSS

Net loss and comprehensive loss for Q1 2022 was \$1,524K compared to a net loss of \$887K for Q1 2021. The increased loss is attributed to higher operating expenses, mainly in staffing and professional fees, as the Company continues its rapid expansion in Canada while also building out its infrastructure as it enters the US market. The Company expects this investment to continue at a similar pace in the coming quarters as the US market becomes a larger part of its overall strategy; this will be accompanied by an increase in revenue and associated gross profit as new customers come on to the Today platform.

REVENUE AND GROSS PROFIT

Gross Dollar Value (“GDV”) of \$69.8MM for Q1 2022 increased by \$52.9MM or 313% from \$16.9MM for Q1 2021. The increase in GDV is a result of the Company experiencing less restrictions in the hospitality space with one month of full reopening’s, and significant expansion of its client base and associated active user count over the preceding 12 months.

Revenue for Q1 2022 totaled \$797K, an increase of \$543K or 214% from \$254K for Q1 2021. Card revenue was the main driver for the increase, up \$310K from Q1 2021, while Transaction revenue growth trailed slightly with an increase of \$261K. Program management revenue decreased by \$29K from Q1 2022.

Transaction revenue, which consists of interchange, ATM, and transfer fee's, totaled \$335K for Q1 2022, an increase of \$261K or 354% from \$74K for Q1 2021. The increase is due to the Company growing its year end active user count from 11.5K at the end Q1 2021, to 48.8K at the end of Q1 2022, which in turn resulted in 313% more GDV being processed on the Today platform.

Card revenue, which consists of procurement and fulfillment of Today debit cards to the clients for use by card holders, totaled \$379K for Q1 2022, an increase of \$310K or 454% from \$68K for Q1 2021. The increase is a result of new client onboardings and increased staffing at existing clients as full reopening occurred in March of 2022.

Program Management revenue, which primarily consists of licensing of the Company's technology to adjacent markets, was \$83K for Q1 2022, a decrease of \$29K or -26% from \$112K for Q1 2021. The decrease is a result of lower fee's earned from one of the Company's programs tied to the travel industry.

Gross Profit for Q1 2022 totaled \$114K or 14.4% of revenue, an increase of \$41K from \$73K or 28.8% in Q1 2021. The increase in profit is a direct result of revenue growth. The decrease in profit as a percentage of revenue is mainly due to a significant increase in Card revenue which is lower margin as current pricing is structured more as a cost recovery, and some duplication of platform costs as the Company continues to migrate clients from its legacy 1.5 platform to its current 2.0 platform; the Company anticipates completing the migration in early Q3 2022.

OPERATING EXPENSES

Total operating expenses for Q1 2022 were \$1,576K, an increase of \$612K or 64% from \$964K in Q1 2021. The main driver for the increase is higher salaries and benefits expenses and increased professional fee's. Operating expenses of the company consist of:

Salaries and employee benefits were \$767K for Q1 2022 compared to \$401K for Q1 2021. The increase of \$365K is primarily a result of increased staffing, from 19 at the end of Q1 2021 to 29 at the end of Q2 2022, to support product development, the growth of the Canadian market, and expansion into the US market. The Company also experienced an increase in salaries across most positions in the organization in the latter half of 2021 due to increased competitiveness in the North American labour market, consistent with other companies in the technology and financial sectors.

Professional fees were \$197K for Q1 2022 compared to \$100K for Q1 2021. The increase of \$97K is largely a result of compliance expenses which increased due to US expansion and higher user counts, audit fee's due to increased business complexity as the Company expands to the US, and increased recruitment.

Stock based compensation was \$21K for Q1 2022 compared to \$45K for Q1 2021. The decrease of \$24K is due to a reduction in equity grants vesting in the current quarter compared to the year ago period.

Consulting fees were \$224K in Q1 2022 compared to \$60K for Q1 2021. The increase of \$164K is mainly a result of the Company utilizing contracted developers to support platform development due to a highly competitive labour market. The Company anticipates this requirement to continue for the foreseeable future.

Marketing and promotion was \$49K for Q1 2022 compared to \$13K for Q1 2021. The increase of \$37K is due to increased spend on marketing materials used to attract new clients, increase card holder communications, and fees associated with the Company's recently launched loyalty rewards program.

Office and General was \$46K for Q1 2022 compared to \$69K for Q1 2021. The decrease of \$23K is due mainly to reduce software subscription expenses as the Company consolidated applications through 2021 and decommissioned a legacy server incurring hosting fees in Q4 2021

Amortization and depreciation was \$44K for Q1 2022 compared to \$43K for Q1 2021, or largely flat year over year.

Public Company and Regulatory fees were \$221K for Q1 2022 compared to \$191K for Q1 2021. The increase of \$29K is due to increased Investor Relations awareness activities conducted in the quarter mainly focused on introducing the Company to US retail and institutional investors.

Bank charges, interest and accretion was \$9K for Q1 2022 compared to \$40K for the prior year. The decrease of \$31K is due mainly to loan interest and accretion as the Company settled its loan payable in Q1 2021, the Company did not incur loan interest in Q1 2022.

Travel, meals and entertainment was \$12K for Q1 2022 compared to \$2K for Q1 2021. The decrease of \$10K is due more restrictive COVID travel requirements in Q1 2021 resulting in minimal opportunity for travel in the quarter.

Bad debt and expected credit loss ("ECL") was a recovery of \$15K for Q1 2022 compared to \$nil for Q1 2021. The recovery is due to the net of amounts which were outstanding and provided for at year end and having been collected in Q1 2022 offsetting new accounts included in the ECL calculation.

OTHER INCOME

Other expense (income) for Q1 2022 was an expense of \$63K compared to income of \$3K for Q1 2021. The increase expense of \$66K is a result of non-operating expenses incurred by the Company as a result of exploring potential M&A transactions in the quarter; the Company has since halted this activity at this time due to market conditions.

ASSETS

Cash as at March 31, 2022 was \$6,368K compared to \$8,383K at December 31, 2021. The decrease in cash of \$2,015K is mainly attributed to \$1,481K being used to fund operations along with issuance of a short-term promissory note of \$638K (\$500K USD).

Receivables including other receivables as at March 31, 2022 were \$857K compared to \$869K at December 31, 2021, or largely flat over the period.

Prepaid expenses as at March 31, 2022 were \$301K compared to \$114K at December 31, 2021. The increase of \$187K is a result of deposits advanced for investor relations activities to be executed through out 2022 focused on creating awareness within US retail and institutional investment communities.

Notes receivable as at March 31, 2022 were \$638K compared to \$nil at December 31, 2021. In January 2022, the Company extended a short-term interest-bearing note denominated in USD for \$500K USD to a partner it is working with to develop co-branded solutions for the US hospitality market. The note is intended to assist the partner in managing general working capital requirements.

Investments as at March 31, 2022 were \$250K compared to \$nil at December 31, 2021. In March 2022, the Company converted a clients outstanding receivable of \$200K USD, which was attributed to platform licensing revenues generated in Q3 2021, to and equity investment of 200,000 common shares valued at \$1.00 USD per share. Management sees this as an opportunity invest in a potentially high growth adjacent market segment while maintaining the Company's focus the hospitality industry.

LIABILITIES

Accounts payable and accrued liabilities as at March 31, 2022 was \$976K compared to \$830K at December 31, 2021. The increase of \$145K is attributed to program incentives related to the Company's launch with Visa in the US. Recognition of the incentive amount is contingent on the Company achieving pre-determined payment volumes over a 3 year period. The Company will review its progress against the target volumes quarterly and recognize any earned amount in Other Income.

SHAREHOLDERS EQUITY

Shareholders equity as at March 31, 2022 was \$8,544K compared to \$9,642K at December 31, 2021. The decrease of \$1,098K is due to an increase in accumulated deficit of \$1,524K associated with the current quarter's net loss and comprehensive loss. Partially offsetting this is an increase of \$576K in share capital mainly attributed to the exercise of warrants and options in the quarter.

RESTRICTED CASH AND CLIENT DEPOSITS

Acting as a paying agent, the Company had \$31,590K in restricted funds on deposit and a corresponding liability for client deposits as at March 31, 2022 (December 31, 2021 - \$25,977K), which represents amounts received from clients to load on prepaid cards. Restricted cash is segregated in separate bank accounts, controlled by the Company, from which the Company earns interest. The Company cannot utilize the restricted cash and client deposits outside the scope of the client contracts.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

WORKING CAPITAL

Working capital of the Company as at March 31, 2022 was \$7,067K compared to \$8,407K at December 31, 2021. The decrease of \$1,340K is a result of a lower ending cash balance.

RISK FACTORS AND UNCERTAINTIES

Please refer to the Company's audited annual consolidated financial statements for the year ended December 31, 2021.

NEW ACCOUNTING PRONOUNCEMENTS

No new pronouncements were issued by the IASB or the IFRIC that are applicable or have a significant impact on Company's annual audited consolidated financial statements and related disclosures.

DEFINITIONS – IFRS, ADDITIONAL GAAP AND NON-GAAP

IFRS MEASURES

Cost of sales

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

Gross profit and gross profit margin

Gross profit is net revenue less cost of sales while gross profit margin is gross profit divided by net revenue.

Office and general in operating expenses

Office and general expenses include software and other computer expenses, internal compliance expense, donations, dues and fees, equipment leases, insurance, facilities, telecom, and office supplies and maintenance expenses.

Public Company and Regulatory fees

Public Company and Regulatory fees include expenses related to corporate filings, fees for exchange listings, transfer agent fees and other administrative costs pertaining to equity issuance, marketing and advisory services related to investor relations, and other expenses associated with being a publicly traded company.

Finance costs

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

ADDITIONAL GAAP MEASURES**Loss from operations**

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

KEY PERFORMANCE INDICATORS (non-GAAP and non-IFRS)**Gross dollar value (“GDV”)**

Gross dollar value loaded is the aggregate amount of all dollars loaded on to the Company’s platform by hospitality establishments and is measured on a monthly, quarterly, and annual basis.

Active Users

The Company classifies active users as those card holders who have at least one transaction from their account in the month. A transaction is defined as either a deposit to their card, etransfer, ATM withdrawal, bill payment, or point-of-sale purchase.