XTM Inc.

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

Management's Discussion and Analysis

For the years ended December 31, 2023 and 2022

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A") prepared as of September 30, 2024 reviews the financial condition and results of operations of XTM Inc. (the "Company" or "XTM") for the year ended December 31, 2023 and all other material events up to the date of this report. The following discussion should be read in conjunction with the annual audited consolidated financial statements and related notes for the year ended December 31, 2022. 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 audited consolidated 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 annual audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2023. Comparative amounts in the annual audited consolidated financial statements and accompanying notes thereto are for the year ended December 31, 2022.

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 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

Founded in the cloud-banking space to further support businesses to inspire their workforce in the hospitality, personal care and services staffing industries, XTM provides on-demand pay for many large brands including Earls, Maple Leaf Sports & Entertainment, Cactus Club, Marriott Hotels and Live Nation. QRails is a fully owned subsidiary of XTM. A cloud-based, API-driven issuer-processor, QRails enables payroll providers, financial institutions and other global fintech companies to keep up with the on-demand economy by delivering innovative digital payment solutions to their employees. QRails helps companies modernize and leverage payroll as a differentiator in attracting and retaining talent all at low to no cost for the employee and employer. QRails' flagship solution, AnyDay™, is the first provider to own their full tech stack that powers their Earned Wage Access solution. Founded in 2016, QRails, Inc., together with its U.K. subsidiary, QRails Limited which is SAP-certified. QRails also has earned several industry certifications under PCI DSS, and SOC. For more information, please visit www.QRails.com.

Moving forward, the Company's growing focus is on delivering on a global demand for its fully certified Earned Wage Access ("EWA") solution through its AnyDay™ product, a mobile and enterprise software solution specifically designed to provide earned wages to employees, on demand, via a mobile wallet, accessible via the internet or by a free mobile app paired with a Chip & PIN EMV Mastercard debit card. The solution includes free banking features and is used by thousands of employees in 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 with offices in Miami, Toronto, Denver and London.

RECENT EVENTS

The following notable events occurred after the period covered by the Company's 2023 year end audited consolidated financial statements and MD&A:

- In February 2024, the Company began funding EWA advances from its lending facility. The lending facility totals up to USD $100MM with access to $20MM for the initial tranche.

- On February 27, 2024, the Company announced the official commercial launch of AnyDay™, its SAP-certified and fully-compliant EWA solution through its channel partner Alight, for a Fortune 15 Employer, marking XTM's largest EWA program to date.

- On February 6, 2024, the Company announced that it completed non-brokered private placement offering for convertible debentures, previously announced and revised on December 18, 2023, for aggregate gross proceeds of US$11,028,468 oversubscribed from the original maximum offering size of US$5,000,000. Five million of the $11,028,468 was rescinded due to an investor's finances being intercepted in an injunction; however in March 2024 XTM obtained a $20,000,000 lending facility from which funds can be used for operations and the deficit of prepaid funds fully reconciled on demand, in the event a customer demands repayment of the prepaid funds. Note that while the deficit of prepaid funds has not been cured, the funds available under the credit facility can be used for the settlement of any demands for prepaid funds in the event of such demand and there is no risk to the return of prepaid funds.

- On December 18, 2023, the company announced that the terms of its non-brokered private placement offering for aggregate gross proceeds of up to US$5MM (the "Offering") of units originally announced on December 13, 2023, have been revised from an issuance of units of convertible debentures to the issuance of convertible debentures in the principal amount of US$1,000 at a rate of 12% per annum from the date of issuance of the Company (each a "Debenture") and is due 24 months after the date of issuance. Each Debenture shall be convertible at the option of the holder thereof into units ("Units") of the Company at a price of US$0.11 per Unit. Each Unit shall entitle the holder thereof to receive one common share in the capital of the Company ("Common Shares"), for no additional compensation, and one warrant to purchase a Common Share upon payment of US$0.11 to the Company for a period of 24 months from the Initial Closing Date. The Debentures will be a secured obligation of the Company ranking junior in right of payment to all existing secured credit agreements and financing arrangements of the Company, and senior in right of payment to all current and future unsecured obligations of the Corporation.

- In October 2023, the Company issued shares to support the Company's working capital requirements until the close of the Convertible Debt Financing, issuing a total of 4,425,356 common shares for proceeds of $592,775 at an average price of $0.134 per share.

- In August 2023, the Company promoted Cary Strange from Chief Revenue Officer to President, aligning with the proposed launch of QRails revenue with a Fortune 50 customer in December 2023.

- On August 18, 2023, the Company completed its transaction (the "Purchase Agreement") to acquire (the "Transaction") all the issued and outstanding securities of QRails Inc. ("QRails"). The securities of QRails will be acquired from its current shareholders (the "Sellers") for total consideration of US$3.5MM, consisting of US$100K in cash with the remaining US$3.4MM to be paid through the issuance of common shares.

- The Company brought to market several new products over the first half of 2023 including:
    - Earned Wage Access ("EWA"): By immediately capitalizing on its relationship with QRails, the Company quickly integrated its tipping solution with QRails AnyDay™ https://anydayispayday.com/ solution and the QRails processor and began transitioned its US clients from the Today app to the AnyDay app. By doing this, the Company is able to deliver a fully compliant, payroll integrated, single source, EWA solution. This uniquely positions the

Company to provide Employers with operations in the US with one integrated solution for their employees. The EWA solution will roll out in Canada in Q3-Q4 2024.

With a goal to profitability the Company added SAAS revenue to its model by moving *AnyDay™ Financial* to a paid subscription model from the previous free model. The Company began signing new clients to the tiered subscription model in March 2023, while renewing existing client contracts on the paid model beginning in May 2023.

HIGHLIGHTS FOR FISCAL 2023

The 2023 calendar year was transitional for the Company with the acquisition and subsequent blending of the QRails resources, the Company invested significant effort in streamlining the technologies and reducing redundancy. The Company successfully reduced the composite burn of QRails, secured sales channel relationships and continue to sign additional business. The Company's growth was throttled until the close of financing, both EWA lending and operational funding, which closed early in 2024.

In parallel with the transaction, the Company managed to increase its 2023 revenue by 43% to $6.8MM in revenue while processing over $650MM in payments (GDV) to hospitality sector employees, with 96% coming from the Canadian market. The Company views the 42% growth in GDV and 43% growth in revenue as a clear sign of continued positive momentum even though economic headwinds continue to put supress consumer discretionary spend.

- Gross dollar value ("GDV") loaded on the Company's *AnyDay™ Financial* platform grew 42% or by $196MM to $659M for the year with the Company achieving its highest single month load in December totalling $67MM;
- Current Active users at the end of 2023 (defined as card holders that completed a minimum of one transaction in a current month) on the Company's *AnyDay™ Financial* platform totalled 80K, an increase of over 13K or 20% from 67K for the year ended 2022. Total Active Users (defined as an *AnyDay™ Financial* wallet holder with at least one transaction in the past 6 months) increased to 115K at the end of 2023 from just under 101K at the end of 2022;
- Revenue was $6.8MM for fiscal 2023, increasing $2.0MM or 43% compared to prior year, with transaction revenue (revenue generated from card holders moving funds off their cards) growing 51% from prior year;
- Gross Profit was $219K or 3% of revenue for fiscal 2023 compared to $930K or 20% for the prior year, with the decrease in percentage driven by increased direct transactional costs, such as interchange and network costs due to the increase in GDV. Operating expenses were $13.7MM for fiscal 2023 compared to $7.8MM for the prior year with the increase resulting from the QRails acquisition including increased staffing and professional fees, professional fees from audit and legal fees from acquisition, increases in office and general, amortization on intangible assets acquired and share-based compensation increases;
- Net loss was $16.1MM for fiscal 2023 compared to $7.3MM for 2022. Current year net loss increased compared to prior year by $8.8M mainly due to the QRails acquisition investments in new technology, new hires to support growth, further investment into programs for the US market, and expansion to new verticals;
- Cash totaled $94K at December 31, 2023, down $2.6MM from 2022's year end total of $2.7MM with all of the $2.6MM reduction being used to fund operations;

- Working capital of the Company was a deficit of $15.7MM at December 31, 2023, a decrease of $16.7MM compared to working capital of $972K at December 31, 2022, with the decrease due to increased deposit liabilities, payables and due to related parties plus a decrease in cash, restricted cash, receivables and restricted receivables;
- During the year the Company successfully onboarded 673 new locations for its AnyDay program.

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"), Current Active Users, and Total 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.

ANALYSIS OF FINANCIAL PERFORMANCE

NET LOSS AND COMPREHENSIVE LOSS

Net loss and comprehensive loss for fiscal 2023 was $16.1M compared to a net loss of $7.3M for the prior year. The increased loss of $8.8M is attributed to higher operating expenses mainly in staffing (consisting of "Salaries and employee benefits" plus "Consulting"), professional fees and the inclusion of QRails expenses into operations for 4.5 months of the year. The Company expects operating expenses to remain at similar levels in the coming quarters as it continues to invest in development to bring new products and features to market, and as the US market becomes a larger part of its overall strategy. This will be partially offset by an increase in revenue and associated gross profit as new customers come on to the *AnyDay™ Financial* platform, resulting in a reduction in net and comprehensive losses in future quarters.

REVENUE AND GROSS PROFIT

Gross Dollar Value ("GDV") of $659M for 2023 increased by $196M or 42% from $463M for 2022. The increase is a result of significant growth in the number of clients and associated active users added to the *AnyDay™ Financial* program over the preceding 12 months coupled with the complete removal of COVID-19 restrictions in the hospitality sector starting in early Q2 2022; the latter resulting in higher foot traffic which in turn yielded higher GDV per client and active user.

Revenue totaled $6,775K for fiscal 2023, an increase of $2,041K or 43% from $4,734K for 2022. Of the Company's three revenue streams, Transaction revenue was the main driver, increasing by $2,016K, while Card issuance revenue increased slightly by $34K and Program management revenue was down $9K.

Transaction revenue which consists of interchange resulting from point-of-sale transactions ("POS"), out of network ATM withdrawal fees, and electronic transfer fees totaled $5,963K for fiscal 2023, an increase of

$2,016K or 51% from $3,947K for the prior year. The increase is due to the Company generating more GDV per location as a result of 1) pandemic restrictions being lifted, 2) growing its location count resulting in active user growth by over 23K card holders during 2023, and 3) generating new fees from clients as a result of adding new services and implementing new wallet management-based fees.

Card issuance revenue which consists of revenue from the purchase and shipping of *AnyDay™ Financial* debit cards to the clients for use by their employees, totaled $607K for fiscal 2023, an increase of $34K or 6% from $573K for the prior year. This is due to a change from card revenue is being recognized, and the Company is amortizing revenue over the average contractual life of the cards. On a comparative basis, revenue would have been up by $295K or 42% year over year. Entering fiscal 2023, the Company had 2,013 locations with 67K users (1,341 and 41K for prior year opening), adding an additional 673 locations and 23K users through out the year. This higher number of locations and active users at the beginning of 2023 compared to the beginning of 2022 coupled with the current year growth in both metrics was the main driver for the increase.

Program management revenue which consists mainly of licensing fees or customization and support fees of the Company's *AnyDay™ Financial* technology totaled $205K for fiscal 2023, a decrease of $9K or 4% from $214K for 2022. The decrease is due mainly to an overall decline in recurring program fees as the Company refocused sales and development efforts to its primary products and services to drive improved efficiencies mainly through economies of scale. The Company anticipates this revenue stream will decline further in 2024 as while EWA revenue will increase as a new stream.

- **Gross Profit** for fiscal 2023 totaled $219K or 3% of revenue, a decrease of $527K from $930K or 20% of revenue for the prior year. The decrease in gross profit percent is driven by increased direct transactional costs, such as interchange and network costs due to the increase in GDV.

OPERATING EXPENSES

Total operating expenses for fiscal 2023 were $16,302K, an increase of $8,195K or 100% from $8,197K in the prior year. The main driver for the increase is higher staffing costs (salaries and employee benefits plus Consulting), professional fees, and inclusion of QRails, as the Company made significant investments across all departments to manage growth, continue to add value to its software and services, and to expand is focus beyond the hospitality segment. Operating expenses of the company consist of:

Salaries and employee benefits were $6,872K for fiscal 2023 compared to $3,699K for the prior year. The increase of $3,172K is primarily a result of the acquisition of QRails in August 2023, adding $3,091K in the year. The QRails product is compliant with Payment Card Industry Data Security Standards and is Type 1 SOC 1 compliant, resulting in additional staffing requirements to meet the rigorous standards. The Company views this team as necessary to administer the EWA AnyDay™ platform at scale throughout Canada, the US and Europe.

Professional fees were $1,657K for fiscal 2023 compared to $736K for the prior year. The increase of $921K or 125% is due mainly to additional spending of $746K on auditors, as the Company had to switch auditors in 2023 while also preparing to consolidate the acquisition of QRails. The remaining increase was primarily due to legal fees increasing $287K relating to the acquisition of QRails.

Share-based compensation was $1,615K for fiscal 2023 compared to $358K for the prior year. The increase of $1,257K or 351% is due mainly to the Company issuing substantially more options and RSU's granted and increased share-based compensation to directors and other stakeholders.

Consulting fees were $551K in fiscal 2023 compared to $1,299K for the prior year. The decrease of $748K is mainly a result of the Company ceasing to utilize contracted developers in late 2022 to support platform development due to a highly competitive Canadian labour market through the first three quarters of fiscal 2022. In late Q4 2022 the Company undertook an initiative to brings development back in-house to reduce costs and improve consistency as the labour market has improved since the beginning of fiscal 2022, reducing overall consulting fees in 2023. The Company continually reviews staffing requirements and reliance on contract labour quarterly and adjusts based on labour market and projected workload requirements.

Marketing and promotion was $452K for fiscal 2023 compared to $306K for the prior year. The increase of $146K or 48% is due to increased cardholder communications spend (messaging) due to a higher number of active users on the platform, costs associated with the Company's rewards and loyalty program for cardholders, and higher spend on tradeshows and associated content creation.

Office and General was $864K for fiscal 2023 compared to $354K for the prior year. The increase of $510K is partially due to the addition of QRails, totaling $300K. Business insurance increased by $107K in 2023 to $256K compared to $149K the prior year. Program and development fees and expenses were also $86K in 2023 due to costs in launching the new EWA platform.

Depreciation and amortization was $812K for fiscal 2023 compared to $191K for the prior year. The increase of $621K is due to the Company commencing amortization on the QRails software acquired as an intangible asset totaling $435K and depreciating new right-of-use assets and property and equipment totaling $193K.

Public company and regulatory was $328K for fiscal 2023 compared to $771K for the prior year. The decrease of $443K is due to decreased public market spend pertaining to awareness and outreach activities in 2022 that were mainly focused on introducing the Company to US retail and institutional investors.

Accretion and interest on debentures was $142K and $131K, respectively for 2023 compared to nil for the prior year. The CAD convertible debentures issued were effective April 20, 2023 with accretion and interest over a 2-year period to maturity.

Bank charges and interest was $61K for fiscal 2023 compared to $35K for the prior year. The increase of $26K is due mainly to an increase in administration fees and merchant fees as the Company conducted higher volumes of business and inclusion of QRails.

Travel, meals, and entertainment was $101K for fiscal 2023 compared to $89K for the prior year. The increase of $12K is due to increased travel from US expansion.

Bad debt and expected credit loss ("ECL") was a loss of $51K for fiscal 2023 compared to a gain of $10K for the prior year. The loss in the current year is a result of the Company being exposed to an expected credit loss associated with receivables outstanding and higher ECL realized at QRails.

Other expense for fiscal 2023 was an expense of $2,664K compared to an expense of $369K for the prior year. The current year expense consists of:

(i) the write-down of restricted cash imbalance totaling $2,220K;
(ii) inclusion of QRails other income of $73K primarily consisting of foreign currency translation gain;
(iii) financing costs of $130K;
(iv) loss on remeasurement of prepayment option valuation totalling $87K;
(v) and foreign exchange loss totalling $300K.

The prior year expense consists of:

(i) the write-down of a strategic investment totalling $250K CAD that the company deemed no longer viable *(also see note 20 of the audited annual consolidated financial statements)*;
(ii) Costs associated with potential acquisition the Company was pursuing but did not consummate in the first half of 2022 totaling $102K;
(iii) the write-down of uncollectible funds totaling $86K;
(iv) Interest income of $106K earned as a result of operating and restricted cash balances held at schedule 1 Canadian financial institutions;
(v) foreign exchange gain income of $28K;
(vi) and income from a recovery of legal fee's resulting from a successful motion put forward by the Company totalling $25K.

ASSETS

Cash as at December 31, 2023 was $94K compared to $2,688K at December 31, 2022. The decrease of $2,594K is a result of cash consumed to fund operating activities totalling $1.7M and investment spending exceeding finance activities by $1.1M.

Trade and other receivables as at December 31, 2023 were $503K compared to $579K at December 31, 2022. The decrease of $76K is mainly a result of a decrease in other receivables.

Receivables – restricted as at December 31, 2023 were $658K compared to $172K at December 31, 2022. The entire balance in 2023 relates to the QRails EWA transaction funding receivable.

Prepaid expenses as at December 31, 2023 were $454K compared to $281K at December 31, 2022. The increase of $173K is primarily due the addition of QRails prepaid assets which are mostly comprised of prepaid subscriptions of $165K.

Inventory as at December 31, 2023 was $417K in 2023 comparted to $7K at December 31, 2022. The increase of $410K is due to the implementation of QRails EWA by the Company and subsequent acquisition of QRails. Both the Company's and QRails' card providers hold payment card inventory along with related program collateral and envelopes for the EWA programs. This amount will continue to grow as new clients are onboarded in 2024.

Contract assets as at December 31, 2023 was $384K compared to $248K at December 31, 2022. The increase of $136K is due to the Company deferring card costs over the remaining life of its customer contracts and the associated increase in unearned revenue.

Prepayment option on convertible note as at December 31, 2023 was $143K. The derivative asset was initially recorded at a fair value of $229K and was remeasured to a fair value of 143K, recording a loss on remeasurement of $87K.

Intangible assets as at December 31, 2023 was $7,039K compared to $78K at December 31, 2022. The increase of 6,961K is due to the addition of internally developed software acquired as part of the acquisition of QRails by the Company totaling $7,012K at December 31, 2023.

Goodwill as at December 31, 2023 was $3,128K compared to $920K at December 31, 2022. The business combination by the Company with Qrails resulted directly in $2,208K of Goodwill acquired as part of the acquisition in August 2023.

LIABILITIES

Trade and other payables as at December 31, 2023 were $7,500K compared to $1,288K at December 31, 2022, an increase of $6,212K. The increase is partly due to the acquisition of QRails which added $3,533K in 2013. The remaining increase in accounts payable was a result of aging payables longer than normal. The Company has payment plans negotiated with key vendors, reducing the need for near-term cash outlay.

Unearned revenue as at December 31, 2023 was $1,104K compared to $464K at December 31, 2022. The increase of $640K is attributed to the Company recognizing Card revenue over the life of customer contract. As at December 31, 2023, this generated an unearned revenue balance of $548K. The Company also had 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 has not recognized any of the incentive to date and will review its progress against the target volumes quarterly and recognize any earned amount in Other Income.

Lease liabilities as at December 31, 2023 was $257K, comprised of a current ($246K) and long-term ($11K) portion compared to $87K at December 31, 2022. The increase of $170K is primarily due to QRails leases acquired of $161K comprised of a $95K office lease liability and $66K of computer equipment leases.

Due to related party as at December 31, 2023 was $2,259K compared to $160K at December 31, 2022, an increase of $2,099K. The increase is primarily due to key executives and shareholders funding the working capital of the company.

Convertible debentures as at December 31, 2023 was $1,483K and related to the CAD tranche of convertible debentures that were issued in 2023. The initial fair value of the host debt upon recognition was $1,341K and accretion expense of $142K resulted in the ending balance of $1,483K.

Subscription receipts as at December 31, 2023 was $1,088K and related to proceeds received as part of the Company's non-brokered private placement of convertible debentures that has an initial closing date after the year-end date.

SHAREHOLDERS EQUITY

Shareholders equity as at December 31, 2023 was negative $7,330K compared to $2,187K at December 31, 2022. The decrease of $9,517K is due to an increase in accumulated deficit of $16,172K associated with the current years net loss and comprehensive loss. Partially offsetting this is an increase of $4,222K in share capital from the issuance to acquire QRails, equity derivative from convertible debentures of $590K, and various share-based compensation totalling $1.7M.

RESTRICTED CASH AND PROGRAM DEPOSITS

Acting as a paying agent, the Company had $50.0MM in restricted funds on deposit (December 31, 2022 - $51.3MM) and corresponding liabilities for client and cardholder balances as at December 31, 2023 of $57.1MM (December 31, 2022 - $52.5MM), resulting in a deficit of trust assets totalling $7.1MM. Restricted cash consists of cash balances held in individual client wallets which are on deposit in custodial accounts controlled by the company for the sole benefit of the client, and cardholder balances resulting from the transfer of funds by the client from their respective wallet(s) to a card which are on deposit in settlement accounts controlled and subject to restrictions imposed by the card program sponsoring bank.

The deficit of $7.1 MM is a product of several factors. As at December 31, 2022, XTM had an existing difference between the balance on deposit in custodial and settlement accounts and the recorded liability of $1.3MM. Administration fees of $3.6MM were levied for increased processing costs due to the increase in fraudulent transactions. Fraud losses of $2.0MM refers to funds lost due to misuse. Both the Administration cost and Fraud losses are potentially recoverable through claim via cyber-insurance policy. A timing difference increasing the deficit by $273K refers to accounting differences due to cutoff. See Note 22 of the financial statements for more information.

OFF BALANCE SHEET ARRANGEMENTS

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

WORKING CAPITAL

Working capital of the Company as at December 31, 2023 was a deficit of $15,716K compared to $1,032K at December 31, 2022. The decrease of $16,749K is mainly a result of an increase in trade and other payables, due to related party and program deposits totaling $12,900K plus a decrease in cash and restricted cash of $3,894K, offset by increase in restricted receivables of $486K.

RISK FACTORS AND UNCERTAINTIES

Please refer to the Company’s annual audited consolidated financial statements for the year ended December 31, 2023 for identification of risks effecting the Company.

NEW ACCOUNTING PRONOUNCEMENTS

Please refer to the Company’s annual audited consolidated financial statements for the year ended December 31, 2023 for new pronouncements 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.

ADDITIONAL GAAP MEASURES

Professional fees
Professional fees consist of expenses the Company incurs in the normal course of business to procure the services of individuals or businesses highly skilled in a particular field which includes, but is not limited to legal, recruitment, audit and taxation, and capital markets. These fees are primarily for a fixed duration and for tasks with a finite duration and limited scope.

Consulting fees
Consulting fees consist of expenses incurred primarily for contract labour required for an indefinite period with a broad mandate that will evolve as the business needs dictate. At times management judgement will be required in determining the classification between consulting fees and professional fees when a service lies outside of the defined categories in the respective definitions.

Public company and regulatory
Public company and regulatory expenses consist mainly of expenses associated with public company filings, management of the Company's listing on the CSE, equity administration and management, and investor relations activities such as outreach and marketing.

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.

Accretion expense
Accretion expense relates to expenses the Company incurs as a result of issuing convertible debentures. Host debt of convertible debentures are initially measured at fair value, accounting for embedded derivatives. The convertible debenture liability is accreted over the term of the convertible debenture to the liability amount equal to the net proceeds received.

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.

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, personal care, food delivery, and other establishments, and is measured on a monthly, quarterly, and annual basis.

Current Active Users

The Company classifies Current Active Users as those wallet holders who have had at least one transaction in their account in the most current reported month of the reporting period.

Total Active Users

The Company classifies Total Active Users as those wallet holders who have had at least one transaction in their account during the previous six months from the reporting date.