

XTM Inc.

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

**Management's
Discussion and Analysis**

For the years ended December 31, 2021 and 2020

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A") prepared as of April 26, 2022, reviews the financial condition and results of operations of XTM Inc. (the "Company" or "XTM") for the year ended December 31, 2021 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, 2020. These consolidated 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 financial data included in the discussion provided in this report has 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.

Unless otherwise indicated, all financial information in this MD&A is reported in Canadian dollars. All references to the Company contained herein include references to its subsidiaries, as applicable, in the context.

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, 2021. Comparative amounts in the annual audited consolidated financial statements and accompanying notes thereto are for the year ended December 31, 2020.

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 2021 year-end financial statements and MD&A:

- Signed the largest privately held hospitality group in North America within excess of 10,000 employees to deploy the Company's Today Program.
- Launched new gratuity distribution platform allowing all Today Program users to automate the labor-intensive process of calculating how tips are allocated to employees.
- Signed one of the largest North American owner, operator and promoter of entertainment venues including large scale facilities.
- With the lifting of all restrictions and limits in the hospitality personal care space in early March the Company achieved single month record revenue, GDV, and new card holder on-boardings in March 2022.
- Signed the largest facility and food service provider and in North America.

HIGHLIGHTS FOR 2021

- Gross dollar value ("GDV") loaded on the Company's platform was just under \$154MM for fiscal 2021, an increase of 410% from \$30MM in fiscal 2020;
- Active users on the Company's Today platform reached 41K, an increase of 29K or 250% from 12K at the end of fiscal 2020;
- Revenue totaled \$2.4MM for fiscal 2021, an increase of +\$1.5MM or 179% compared to fiscal 2020;
- Gross Profit was \$0.8MM or 31.7% of revenue, an increase of 815% or \$0.7MM compared to \$0.1MM or 9.7% of revenue for fiscal 2020;
- Operating expenses totaled \$5.5MM compared to \$4MM for fiscal 2020;
- Net loss was \$4.8MM compared to a net loss of \$3.6MM for fiscal 2020;
- Cash totaled \$8.4MM as at December 31, 2021, up \$8.1MM from prior year end total of \$0.3MM as the Company completed two successful private placements in the year.
- Working capital of the Company was \$8.4MM as at December 31, 2021, an increase of \$8.8MM compared to negative working capital of \$0.4MM at December 31, 2020, with the improvement a result of proceeds from two private placements and the exercise of warrants and options;
- During the year, the Company signed up 732 new locations for its Tips Today 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”), average revenue per user (“ARPU”), 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	#
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
March 31, 2020	168,042	153,579	14,463	(588,102)	(0.01)	0.5	551

⁽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 fiscal 2021 was \$4,756K compared to a net loss of \$3,597K for fiscal 2020. 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 \$153.9MM for fiscal 2021 increased by \$123.7MM or 410% from \$30.2MM for the prior year. The increase in GDV is a result of the Company significantly expanding its client base, growing its year end active user count from 12.1K at December 31, 2020, to 41K at December 31, 2021.

Revenue for fiscal 2021 totaled \$2,381K, an increase of \$1,527K or 179% from \$853K for the prior year. The increase is a result of growth in all three of the Company’s revenue streams, with Transaction and Card revenue representing \$979K

or 64% of the increase, both tied to the increase in users and GDV processed on the platform, with the remaining \$548K or 36% increase from Program Management.

Transaction revenue, which consists of interchange, ATM, and transfer fee's, totaled \$1,128K for fiscal 2021, an increase of \$669K or 146% from \$459K for the prior year. The increase is due to the Company growing its year end active user count from 12.1K at end of 2020, to 41K at December 31, 2021, which in turn resulted in 410% 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 \$610K for fiscal 2021, an increase of \$310K or 104% from \$299K for the prior year. The increase is a direct result of the aforementioned increase in users on the Today platform.

Program Management revenue, which primarily consists of licensing of the Company's technology to adjacent markets, was \$643K for fiscal 2021, an increase of \$548K or 581% from \$94K for the prior year. The increase is due mainly to roll out of the 2.0 platform at the tail end of fiscal 2020, which provides greater scalability and adaptability to different use cases in the white-labeling space.

Gross Profit for fiscal 2021 totaled \$755K or 31.7% of revenue, an increase of \$673K or 22 percentage points ("PPT") from \$82.5K or 9.7% in the prior year. The Company continues to see increases in gross profit percentage as it increases the GDV processed on its Today platform (Transaction and Card revenues), and continues to leverage its technological investment through high margin white-labeling and bespoke program creation for partners in adjacent markets (Program Management revenue). As the Company continues to expand its presence into the US market it anticipates margins will fluctuate due to timing of US processor charges as well as customer support expenses to service the Company's growing customer base; these charges are a significant component of the company's cost of sales.

OPERATING EXPENSES

Total operating expenses for fiscal 2021 were \$5,548K, an increase of \$1,532K or 38% from \$4,016K in fiscal 2020. 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 \$2,122K for fiscal 2021 compared to \$1,104K for the prior year. The increase of \$1,018K is primarily a result of increased staffing, from 16 at December 31, 2020 to 29 at December 31, 2021, to support 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 fee's were \$916K in fiscal 2021 compared to \$402K for the prior year. The increase of \$514K is largely a result of legal fee's (+\$185K) for preparation of its Annual Information Form ("AIF"), to defend against litigation, and general support for contract development and review, recruiting costs (+\$106K) as the Company added 13 new positions to support growth, subcontracting expense (+\$75K) mainly for legacy platform support, and audit and tax services (+\$67K) due to increases transaction volume.

Stock based compensation was \$531K for fiscal 2021 compared to \$973K for the prior year. The decrease of \$442K is due to a reduction in the issuance of stock options compared to 2020. As both the restricted share unit ("RSU") and stock option plans were implemented in fiscal 2020, the Company took the opportunity to grant most of its staff equity, whereas grants in 2021 were mainly limited to new hires, this resulting in a lower number of RSU's (2020 = 3,285K; 2021 = 2,533K) and stock options granted (2020 = 5,000k; 2021 = nil).

Consulting fee's were \$546K in fiscal 2021 compared to \$190K for the prior year. The increase of \$356K is a result of contracted labour costs (+\$87K) associated with platform development, investor relations and communications

(+\$146K) as the Company increased its investor outreach, and business development consulting (+\$58K) supporting US expansion strategy implementation and execution.

Marketing and promotion was \$404K for fiscal 2021 compared to \$665K for the prior year. The decrease of \$261K is mainly a result of spend in 2020 focused on overseas market awareness that was not replicated in 2021.

Office and General was \$385K for fiscal 2021 compared to \$197K for the prior year. The increase of \$188K is due to software (+\$96K) for subscription services supporting increased staffing and hosting the Company's 2.0 platform in addition to the legacy 1.5 platform, supplies and shipping (+\$31K) due to increased staffing and remote work policies, facilities (+\$26K) due some 2020 cost being captured in 2021 and addition of the US office, and insurance (+\$17K) due to premium increases,

Amortization and depreciation was \$216K for fiscal 2021 compared to \$168K for the prior year. The increase is associated with depreciation for acquired computer hardware used in daily operations.

Regulatory and listing fee's were \$162K for fiscal 2021 compared to \$48K for the prior year. The increase of \$114K is a result of OTC listing fee's not incurred in 2020, an additional 2 months listing and maintenance fees, and higher transfer agent costs due to option exercise and RSU issuance.

Bank charges, interest and accretion was \$159K for fiscal 2021 compared to \$229K for the prior year. The decrease of \$70K is due mainly to loan interest and accretion as the Company settled its loan payable in Q1 2021 and reversed interest accretion associated with COVID relief loans as the Company does not qualify for forgiveness.

Travel, meals and entertainment was \$69K for fiscal 2021 compared to \$38K for the prior year. The increase of \$31K is a result of reduced COVID restrictions allowing for travel and resuming participation in trade shows.

Bad debt and expected credit loss was \$37K for fiscal 2021 compared to \$3K for the prior year. The increase of \$34K is due to a credit loss provision taken at year-end of \$18K with the remaining \$19K from uncollectable card sales.

OTHER INCOME

Other income for fiscal 2021 was \$37K compared to \$336K for the prior year. The decrease is a result of COVID related government assistance received in 2020 which was not replicated in 2021. Fiscal 2021 income is a result of FX gains mainly on cash balances held in USD.

ASSETS

Cash as at December 31, 2021 was \$8,383K compared to \$286K at December 31, 2020. The increase in cash is a result of proceeds from warrants and options that were exercised over the preceding twelve-month period totaling \$3,595K and net proceeds of \$8,901K attained via private placement; partially offsetting this was cash used in operations of \$4,383K.

Receivables including other receivables as at December 31, 2021 were \$869K compared to \$107K at December 31, 2020. The increase in is a result of invoicing towards the end of the year associated with licensing revenues for the Company's platform, new location onboarding, and for fee's pertaining to legacy programs.

LIABILITIES

Accounts payable and accrued liabilities as at December 31, 2021 was \$830K compared to \$634K at December 31, 2020. The increase is from legal fee's invoiced near the end of the year along with higher accrued liabilities associated with 2021 audit and tax filing estimates.

SHAREHOLDERS EQUITY

Shareholders equity as at December 31, 2021 was \$9,642K compared to \$843K at December 31, 2021. The increase is due to Share Capital which increased by \$11,179K due mainly to proceeds from private placements in Q1 2021 and Q4 2021 along with \$3,218K mainly from warrant and option exercises throughout the year. Partially offsetting this is an increase in accumulated deficit of \$4,756K from the current year net loss.

RESTRICTED CASH AND CLIENT DEPOSITS

Acting as a paying agent, the Company had \$25,977K in restricted funds on deposit and a corresponding liability for client deposits as at December 31, 2021 (December 31, 2020 - \$6,154K), which represents amounts received from clients to load on prepaid cards. Restricted cash 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 December 31, 2021 was \$8,407K compared to negative working capital of \$428K at December 31, 2020. The increase in working capital is a result of increased current assets due to an improved cash position and higher accounts receivable.

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.

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 complete at least one transaction from their account in the month.