

XTM Inc.

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www.XTMINC.com

Management's Discussion and Analysis

For the periods ended September 30, 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 November 22nd, 2022, reviews the financial condition and results of operations of XTM Inc. (the "Company" or "XTM") for the period ended September 30, 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 nine months ended September 30, 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 September 30, 2022. Comparative amounts in the unaudited condensed consolidated interim financial statements and accompanying notes thereto are for the period ended September 30, 2021, and 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, gratuities, and expense reimbursements to workers primarily in the hospitality, personal care, and food delivery space, but as of late entering new verticals that can also benefit from its solution. XTM is the originator of the Today™ program, a bespoke software solution specifically designed for restaurateurs, personal care service providers, food delivery operators, and other establishments with a similar need to provide staff with funds in near real-time. It is comprised of a Today wallet accessible via the internet or by a free mobile app, and a companion Visa or Mastercard debit card with free banking features. Currently the solution is used by thousands of locations and their staff across Canada, and is 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 United States office is located at 1221 Brickell Ave Suite 900 Miami, FL. 33310.

During the years ended December 31, 2021 and 2020, and the period ending September 30, 2022, there was a global outbreak of COVID-19, which has had a significant impact on businesses through the restrictions put in place by the Canadian federal, provincial, and municipal governments regarding travel, business operations and isolation/quarantine orders. 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. These uncertainties arise from the inability to predict the ultimate geographic spread of the virus, 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. There is significant uncertainty as to the likely effects of this outbreak which may, among other things, impact our ability to raise further financing. The 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.

RECENT EVENTS

The following notable events occurred after the period covered by the Company's Q3 2022 unaudited condensed consolidated financial statements and MD&A:

- On October 12, 2022, the Company held its inaugural Annual General Meeting where Shareholders voted to approve all matters brought before the Meeting including the setting of the number of directors at four, the election of all director nominees and the re-appointment of MNP LLP as auditors for the ensuing year.
- On November 8, 2022, the Company held a webinar hosted with Restaurants Canada, an industry-leading non-profit association representing over 30,000 foodservice providers and James Rhodes, leading hospitality tax lawyer. The webinar was curated to provide strategic solutions for hospitality professionals to ensure restaurants are tax compliant on gratuity payouts. The webinar imparted important distinctions between direct versus controlled tips, with actionable solutions that restaurant owners can implement to ensure tip compliance. James Rhodes referenced XTM as the solution to support compliant payout best practices.
- On November 15, 2022, the Company filed a "Notice of Change of Auditor" following the decision to change its auditor from MNP LLP (the "Former Auditor") to RSM Canada LLP (the "Successor Auditor"). The Former Auditor submitted their resignation effective November 11th, 2022, and the Successor Auditor was appointed as the new auditors of the Corporation effective the same day. The change was a result of the Company undertaking an extensive RFP process with the dual objective of driving down cost while also maintaining or improving the audit process. In doing so, the Company was able to realize a significant reduction in Audit fee's which will be realized in 2022 and subsequent fiscal periods.

HIGHLIGHTS FOR Q3 2022

The Company views the revenue, increased active user base, and GDV achievements as a clear sign of continued positive momentum in the hospitality space even though economic headwinds are putting a strain on consumer discretionary spend. Revenue of just under \$1.5MM in Q3 2022 was a significant milestone and continues to be attained almost solely from the Canadian market. The Company also continues to have a strong balance sheet yielding adequate working capital to fund organic growth needs into fiscal 2023.

- Gross dollar value ("GDV") loaded on the Company's platform was \$137MM for the quarter and just under \$324MM year to date. This was the highest quarter in the Company's brief history, and an increase of 182% from \$48.7MM for Q3 2021, and an increase of \$21MM or 18% from Q2 2022;
- Current Active users at the end of September 2022 (defined as wallet holders that completed a minimum of one transaction in a current month) on the Company's Today platform totalled 64K, an increase just under 39K or 154% from 25K for Q3 2021, and an increase of 6K or 11% from Q2 2022. Total Active Users (defined as a Today wallet holder with at least one transaction in the past 6 months) increased to 87K at the end of Q3 2022 from just under 83K at the end of Q2 2022 (*metric was not measured in the year ago quarter*);
- Revenue was \$1,468K for the quarter while year to date revenue is \$3,551K. Q3 2022 was the strongest quarter for revenue since the Company's inception, increasing \$607K or 70% compared to Q3 2021, and \$182K or 14% compared to Q2 2022;

- Gross Profit was \$306K or 21% of revenue for the quarter while year to date gross profit is \$717K or 20% of revenue. Q3 2022 saw a decrease of 22% or \$84K compared to \$390K or 45% of revenue for Q3 2021 due mainly to one-time high margin program management revenues being recognized in the year ago quarter;
- Operating expenses were \$2,199K for the quarter and \$5,879K year to date. Q3 2022 saw an increase of 56% or \$790K compared to \$1,408K for Q3 2021 with the main driver being increase staffing, consulting fees, and public company and regulatory expenses to support the Company's product and market expansion initiatives;
- Net loss was \$1,821K for the quarter and \$5,216K year to date. Current quarter net loss increased compared to a net loss of \$983K for Q3 2021 mainly due to investments in new technology, new hires to support growth, and expansion to new verticals;
- Cash totaled \$4.2MM at September 30, 2022, down \$4.2MM from 2021's year end total of \$8.4MM with all of the \$4.2MM reduction being used to fund operations;
- Working capital of the Company was \$3.5MM at September 30, 2022, a decrease of \$4.9MM 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 103 new locations for its 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”), 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.

QUARTERLY RESULTS

The following table summarizes information derived from the Company’s unaudited condensed 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 ⁽¹⁾		
	Revenue	Cost Of Goods Sold	Gross Profit	Net Income (loss)	Net Income (loss) per share	GDV	Current Active Users (past month)	Total Active Users (past 6 months)
	\$	\$	\$	\$	\$	\$MM's	#	#
Statement of Loss and Comprehensive Loss								
September 30, 2022	1,467,995	1,162,164	305,831	(1,820,941)	(0.01)	137.3	64,020	87,303
June 30, 2022	1,286,058	988,971	297,087	(1,871,005)	(0.01)	116.5	57,790	82,626
March 31, 2022	796,623	682,239	114,384	(1,524,265)	(0.01)	69.8	48,767	66,566
December 31, 2021	868,500	752,185	116,315	(1,943,887)	(0.01)	65.2	40,997	76,576
September 30, 2021	861,326	471,690	389,636	(982,379)	(0.01)	48.7	25,182	nm ⁽²⁾
June 30, 2021	396,742	220,753	175,989	(942,215)	(0.00)	23.1	15,982	nm
March 31, 2021	254,079	180,862	73,217	(887,394)	(0.01)	16.9	11,538	nm
December 31, 2020	278,436	363,191	-84,755	(1,996,362)	(0.05)	12.1	11,705	nm
September 30, 2020	201,936	66,526	135,410	(342,382)	(0.00)	11.9	7,519	nm

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

⁽²⁾ “nm” stands for “not measured”

ANALYSIS OF FINANCIAL PERFORMANCE

NET LOSS AND COMPREHENSIVE LOSS

Net loss and comprehensive loss for Q3 2022 was \$1,821K compared to a net loss of \$983K for Q3 2021. The increased loss of \$790K is attributed to higher operating expenses, mainly in staffing (employees and sub-contractors) and to a lesser extent “Consulting” and “Public company and regulatory”, as the Company continues its rapid expansion in Canada while also building out its infrastructure as it enters the US market. 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 Today platform, resulting in a reduction in net and comprehensive losses in future quarters.

REVENUE AND GROSS PROFIT

Gross Dollar Value (“GDV”) of \$137.3MM for Q3 2022 increased by \$88.6MM or 182% from \$48.7MM for Q3 2021. The increase is a result of significant growth in the number of clients and associated active users added to the Today program over the preceding 12 months coupled with the complete removal of COVID-19 restrictions in the hospitality sector; the latter resulting in higher foot traffic which in turn yielded higher GDV per client and active user.

Revenue for Q3 2022 totaled \$1,468K, an increase of \$607K or 70% from \$861K for Q3 2021. Of the Company’s three revenue streams, Transaction revenue was the main driver, increasing by \$887K, while Card issuance revenue increased by \$51K; Program management revenue was down \$331K.

Transaction revenue which consists of interchange, out of network ATM fees, and transfer fee’s, totaled \$1,207K for Q3 2022, an increase of \$887K or 227% from \$320K for Q3 2021. The increase is due to the Company growing its active user count by 154%, going from 25.2K at the end Q3 2021 to 64K at the end of Q3 2022.

Card issuance revenue which consists of procurement and fulfillment of Today debit cards to the clients for use by Today wallet holders, totaled \$244K for Q3 2022, an increase of \$51K or 26% from \$193K for Q3 2021. The increase resulted from a higher number of new client onboardings and increased staffing at existing clients as full reopening occurred in March of 2022.

Program Management revenue which consists of licensing of the Company’s technology to adjacent markets and customized program fee’s, totaled \$17K for Q3 2022, a decrease of \$331K or 95% from \$349K for Q3 2021. The decrease is due mainly to a large one-time licencing fee received by the Company in September of 2021 whereas Q3 2022 revenue consists solely of recurring fee’s.

Gross Profit for Q3 2022 totaled \$306K or 21% of revenue, a decrease of \$84K from just under \$390K or 45% of revenue in Q3 2021. The decrease in gross profit is due mainly to lower program management revenues as Q3 2021 had a one-time licencing fee of \$250K which had no associated direct costs. When adjusting Q3 2021 to normalize gross profit with the current quarter, the result is 140K or 16% of revenue in the year ago quarter. The increase in gross profit percentage from the normalized prior year resulted from increased transaction volume due to growth of users and associated GDV diluting the effect of fixed program costs along with cost reductions negotiated in Q3 2022 for card and transaction costs. Though gross profit improved compared to the year ago quarter, Q3 2022 was impacted by the depreciation of the Canadian dollar relative to the US dollar as a significant portion of its variable costs are US denominated.

OPERATING EXPENSES

Total operating expenses for Q3 2022 were \$2,199K, an increase of \$790K or 56% from \$1,408K in Q3 2021. The main driver for the increase is higher salaries, public company and regulatory costs, and consulting fees. Operating expenses of the company consist of:

Salaries and employee benefits were \$960K for Q3 2022 compared to \$466K for Q3 2021. The increase of \$494K is primarily a result of increased staffing, from 24 at the end of Q3 2021 to 35 at the end of Q3 2022. The Company added new strategic positions at the executive level and expanded the areas of Engineering,

Product Development, and Sales, all to support product the rapid growth of the Canadian market, and expansion initiatives into the US market. The Company also experienced an increase in salaries across most positions in the organization late in 2021 and early 2022 due to increased competitiveness in the North American labour market, consistent with other companies in the technology and financial sectors.

Professional fees were \$237K for Q3 2022 compared to \$221K for Q3 2021, or largely flat year over year. As with prior year, fees consist mainly of legal costs and recruitment fees.

Stock based compensation was \$134K for Q3 2022 compared to \$136K for Q3 2021, or largely flat year over year. Q3 2022 SBC includes Board of Directors compensation totalling \$60K (\$124K in Q3 2021) with the remainder mainly option vesting costs associated with the May 2022 grant (same with Q3 2021).

Consulting fees were \$370K in Q3 2022 compared to \$228K for Q3 2021. The increase of \$142K is mainly a result of the Company utilizing contracted developers beginning in Q4 2021 to support platform development due to a highly competitive Canadian labour market. The Company reviews staffing requirements and reliance on contract labour quarterly, and adjusts based on labour market and projected work load requirements.

Marketing and promotion was \$106K for Q3 2022 compared to \$15K for Q3 2021. The increase of \$91K is due to increased spend on marketing materials used to attract new clients, increase Today wallet holder communications (which is a function of a growing user count), and participation in tradeshow during the current year quarter.

Office and General was \$108K for Q3 2022 compared to \$137K for Q3 2021. The decrease of \$29K is due to a reduction in software subscriptions mainly pertaining to hosting that was eliminated in Q4 2021 and reduction of social media management tools.

Depreciation and amortization was \$48K for Q3 2022 compared to \$54K for Q3 2021, or largely flat year over year.

Public company and regulatory was \$194K for Q3 2022 compared to just under \$80K for Q3 2021. The increase of \$114K is due to increased Investor Relations spend pertaining to awareness and outreach activities conducted in the quarter which were mainly focused on introducing the Company to US retail and institutional investors.

Bank charges, interest and accretion was \$5K for Q3 2022 compared to \$56K for Q3 2021. The decrease of \$51K is due mainly to a reduction in administration fee's as the Company moved some of its services to a lower cost provider.

Travel, meals, and entertainment was \$32K for Q3 2022 compared to \$15K for Q3 2021. The increase of \$19K is due mainly to the Company participating in several trade shows during the quarter which was not possible in Q2 2021 due to COVID-19 travel restrictions that were imposed at that time.

Bad debt and expected credit loss ("ECL") was \$5K for Q3 2022 compared to \$nil for Q3 2021. The minimal increase is a result of the Company updating its credit risk model more frequently due to the higher volume of debit card sales driven mainly by new client signings.

OTHER INCOME

Other expense (income) for Q3 2022 was income of \$72K compared to income of \$36K for Q3 2021. The increased income of \$36K is a result of a cost recovery totalling \$25K for legal fee's the Company was awarded as part of an ongoing lawsuit, and higher interest income due to larger cash balances and Bank of Canada interest rate increases in 2022.

ASSETS

Cash as at September 30, 2022 was \$4,175K compared to \$8,383K at December 31, 2021. The decrease of \$4,209K is a result of cash consumed to fund operating activities.

Receivables including other receivables as at September 30, 2022 were \$677K compared to \$869K at December 31, 2021. The decrease of \$192K is a result of the Company converting a receivable of \$200K USD (~\$250K CAD at time of conversion) to and equity investment (*refer to note 16 – Investments in the Q3 2022 unaudited consolidated condensed interim financial statements and "Investments" below*). The remaining increase is due to the higher volume of revenues.

Prepaid expenses as at September 30, 2022 were \$267K compared to \$114K at December 31, 2021. The increase of \$153K is due to annual insurance premiums paid in the July to be amortized over the following 12 months along with several software subscription annual renewals occurring in the quarter.

Investments as at September 30, 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 September 30, 2022 was \$1,332K compared to \$830K at December 31, 2021, an increase of \$502K. The increase correlates with the increase in operating expenses due to revenue growth and increased reliance on contract labour mainly in engineering.

Unearned revenue as at September 30, 2022 was \$209K compared to \$nil at December 31, 2021. The increase 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 September 30, 2022 was \$5,083K compared to \$9,642K at December 31, 2021. The decrease of \$4,559K is due to an increase in accumulated deficit of \$5,166K associated with the current years net loss and comprehensive loss. Partially offsetting this is an increase of \$654K in share capital mainly attributed to the exercise of warrants and options September 30, 2022 year to date.

RESTRICTED CASH AND CLIENT DEPOSITS

Acting as a paying agent, the Company had \$47,970K in restricted funds on deposit and a corresponding liability for client deposits as at September 30, 2022 (December 31, 2021 - \$25,977K), which represents amounts received from clients available to deposit to Today wallets. Restricted cash is segregated in separate bank accounts, controlled by the Company, from which the Company earns minimal 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 September 30, 2022 was \$3,535K compared to \$8,407K at December 31, 2021. The decrease of \$4,872K is a result of a lower ending cash balance due mainly to funding 2022 year to date operational requirements and higher accounts payable due to revenue growth and increased reliance on contract labour mainly in engineering.

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

Please refer to the Company's unaudited condensed consolidated interim financial statements for the period ended September 30, 2022, and the year ended December 31, 2021.

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 fix 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.

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.