

XTM Inc.

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

Management's Discussion and Analysis

For the periods ended September 30, 2021 and 2020

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

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INTRODUCTION

This MD&A has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company’s a) audited annual financial statements for the years ended December 31, 2020 and b) unaudited interim financial statements for the three, six, and nine months ended March 31, 2021, June 30, 2021, and September 30, 2021 respectively, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company’s unaudited interim financial statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee. Accordingly, information contained herein is presented as September 30, 2021, unless otherwise indicated. These statements can be found under the Company’s profile on SEDAR at www.sedar.com.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors (the “Board”), considers the materiality of information. 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 the Company’s common 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, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

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, 2021. Comparative amounts in the unaudited consolidated interim financial statements and accompanying notes thereto are for the period ended September 30, 2020, and 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 address of the Company's registered office is 67 Mowat Avenue, Suite 437, Toronto, Ontario, M6K 3E3, Canada.

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 throughout Q3 2021. However, the Company acknowledges that there is significant uncertainty in forecasting if the re-openings will continue throughout 2021 and 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

Subsequent to the period ended September 30, 2021, the Company had the following material events:

On October 1st, the Company announced it closed an oversubscribed non-brokered private placement offering (the "Offering") of 21,398,256 units of the Company ("Units") at a price of \$0.40 per Unit, for gross proceeds of \$8,559,302. Each Unit consists of one common share in the capital of the Corporation (each a "Common Share") and one warrant exercisable for one additional Common Share at a price of \$0.65 for a period of 24 months after closing ("Warrants").

On October 10th, the province lifted its COVID capacity restrictions in concert, sport, and meeting venues. The Company currently has its services in many of these locations including Scotia Bank Arena and MLSE venues.

On October 25th, the province of Ontario lifted its COVID capacity restrictions in restaurants, gyms, personal cares services, and casinos; previously capacity limits were set at 25%. These are locations where the Company has significant market penetration with its Tips Today program.

On November 8th, the Company announced that Service Inspired Restaurants (SIRCORP) chose XTM's Today Mobile App and instant payout solution as their solution for disbursing gratuity payouts to its thousands of staff members across the country.

On November 16th, the Company announced that it has partnered with The Bancorp, Inc. (NASDAQ: TBBK) and its subsidiary The Bancorp Bank as its issuing bank for back-end banking services and card issuing sponsorship for XTM USA's instant employee payout solution and banking app for the US hospitality and personal care services sectors.

HIGHLIGHTS FOR Q3 2021

- Revenues were \$861K for Q3 2021, an increase of 327% compared to \$202K in the year ago quarter, and a 117% increase compared to \$397K in Q2 2021;
- Gross Profit was \$390K or 45% of revenue, an increase of 188% compared to \$135K in the year ago quarter;
- Operating expenses were \$1,408K compared to \$633K in the year ago quarter;
- Net loss was \$983K compared to a net loss of \$342K in the year ago quarter;
- Working capital of the Company was \$2,177K as at September 30, 2021, and increase of \$2,548K compared to negative working capital of \$371K at December 31, 2020, with the improvement a result of proceeds from the exercise of warrants and options;
- Gross dollar value ("GDV") loaded on the Company's platform was over \$48MM for Q3 2021, an increase of 111% from \$23MM in Q2 2021, and an increase of 309% from just under \$12MM in Q3 2020;
- Active users on the Company's Today platform reached 25.2K, an increased of 17.7K or 235% from Q3 2020, and an increase of 9.2K or 58% from Q2 2021;
- During the quarter, the Company signed up 334 new locations for its Tips Today program, an increase of 217 or 185% from 117 in Q2, 2021;
- During the quarter, the Company onboarded 10 locations in the US market through the Earls chain of restaurants.

SUMMARY OF QUARTERLY 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 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	#
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
December 31, 2019	192,473	146,976	45,497	(750,036)	(0.02)	0.3	155

⁽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 Q3 2021 was \$983K compared to a net loss of \$342K for Q3 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, though at a lesser extent, in the coming quarters as the US market becomes a larger part of its overall strategy, and new customers come on to the Today platform.

REVENUE AND GROSS PROFIT

Revenue for Q3 2021 totaled \$861K, an increase of \$659K or 327% from \$202K in the year ago quarter. The increase in revenue is a result of growth in all three of the Company’s revenue streams with Program Management representing 49% of the increase, coming mainly from leveraging of the Company’s platform with third party financial service providers. The remaining growth is split almost equally between Interchange and Card Holder revenues, the latter two a result of increases in active users and associated GDV on the Today platform.

Gross Profit for Q3 2021 totaled \$390K or 45% of revenue, an increase of \$254K from the year ago quarter. The Company continues to see improved margins as it leverages its platform for its Today program as well as through licensing and

bespoke financial service programs that benefit from its technological investments and growing brand awareness. 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 Q3 2021 were \$1,408K, an increase of \$775K or 122% from the year ago quarter. Operating expenses of the company consist of:

Salaries and employee benefits were \$446K for Q3 2021 compared to \$308K for the year ago quarter. The increase is a result of increased staffing to support the growth of the Canadian market and expansion into the US market, and a general increase in salaries due to a competitive labour market in Canada and the US.

Stock based compensation were \$136K for Q3 2021 compared to \$nil in the year ago quarter. Subsequent to Q3 2020, the company implemented a restricted share unit ("RSU") plan and granted RSUs to key management, directors, and consultants to attract, motivate and retain those individuals, and to align the interests of plan participants with those of the Company's shareholders. The Company also increased its utilization of options having granted 5MM in May 2020 with expense recorded in Q4 2020.

Professional and consulting fee's were \$449K in Q3 2021 compared to \$113K in the year ago quarter. The increase is a result of the Company engaging consultants in strategic positions to support US expansion, and legal fee's for preparation of its Annual Information Form ("AIF"), to defend against litigation, and general support for contract development and review.

Amortization and depreciation was \$54K for Q3 2021 compared to \$42K in the year ago quarter. The increase is associated with depreciation for acquired computer hardware used in daily operations.

Remaining operating expenses were \$303K for Q3 2021 compared to \$171K in the year ago quarter. The increase is due mainly to increased expenditure in regulatory and filing fee's associated with exchange requirements, and Office and General associated with computer hardware and software expense as the Company continues to invest in tools to support the execution of its operations.

OTHER INCOME

Other income for Q3 2021 was \$35K for Q3 2021 compared to \$156K in the year ago quarter. The decreased is a result of government assistance received in Q3 2020 which was not replicated in Q3 2021. The current quarter balance is a result of FX gains mainly on cash balances held in USD.

ASSETS

Cash as at September 30, 2021 was \$2,303K 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 nine-month period totaling \$4,893K; partially offsetting this was cash used in operations of \$2,273K.

Accounts Receivable including other receivables as at September 30, 2021 was \$629K compared to \$107K at December 31, 2020. The increase in is a result of invoicing towards the end of the quarter 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 September 30, 2021 was \$1,041K compared to \$634K at December 31, 2021. The increase is from legal fee's invoiced near the end of the quarter along with higher accrued liabilities associated with 2021 audit and tax filing estimates.

SHAREHOLDERS EQUITY

Shareholders equity as at September 30, 2021 was \$3,277K compared to \$843K at December 31, 2021. The increase is due to Share Capital which increased by \$5,383K due mainly to proceeds from warrant and option exercises. Partially offsetting this is an increase in accumulated deficit of \$2,812K from the current year net loss.

CASH HELD IN TRUST AND CUSTOMER DEPOSITS AND CLIENT FUNDS

Acting as a paying agent, the Company had \$19,126,150 in restricted funds on deposit and a corresponding liability for client deposits as at September 30, 2021 (December 31, 2020 - \$6,153,784), which represents amounts received from customers to load on prepaid cards. Cash held in trust and customer deposits are segregated in separate bank accounts, controlled by the Company, from which the Company earns interest. The Company cannot utilize the cash held in trust and customer 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, 2021 was \$2,177K compared to negative working capital of \$371K at December 31, 2021. 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 unaudited condensed and consolidated financial statements for the period ending September 30, 2021 along with the Company's Audited financial statements for the period ending December 31, 2020.

DEFINITIONS – IFRS, ADDITIONAL GAAP AND NON-GAAP

IFRS MEASURES

Cost of services

Cost of services 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 and printing costs and customer support expenses for resources directly associated with the cost of services.

Gross profit margin

Gross profit margin is revenue less cost of services.

Other operating expenses

Other operating expenses includes consultant & professional fees, legal expenses, travel & entertainment expenses, expected credit losses, marketing expenses, recruiting expenses, rent expense for office facilities,

insurance, telecom expenses, 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.

Average revenue per user (“ARPU”)

Average revenue per user represents the total revenue in the period divided by the average number of active users in the period.