

XTM Inc.

Financial statements
For the three months ended March 31, 2021 and 2020

Management's Responsibility for Financial Statements

The accompanying unaudited interim financial statements of XTM Inc. (the "Company" or "XTM") are the responsibility of management and the Board of Directors.

The interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions, which were not complete at the statement of financial position date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Management has established processes which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the financial statements 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 in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the financial statements and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements have been prepared by, and are the responsibility of, the Company's management. The Company's independent auditor has not performed a review of these financial statements.

DATED 25th day of May 2021

XTM INC.

Per: (signed) "Marilyn Schaffer"

Name: Marilyn Schaffer

Title: Chief Executive Officer

Per: (signed) "Olga Balanovskaya"

Name: Olga Balanovskaya

Title: Chief Financial Officer

XTM Inc.
INTERIM STATEMENTS OF FINANCIAL POSITION

| As at | March 31, 2021 | December 31, 2020 |
|--|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash (note 5) | \$ 2,308,364 | \$ 285,853 |
| Cash held in trust and customer deposits (note 17) | 8,174,919 | 6,153,784 |
| Trade receivables | 195,608 | 107,123 |
| Sales taxes receivable | 83,738 | 75,323 |
| Prepaid expenses (note 6) | 58,480 | 151,491 |
| Due from related parties (note 11) | 333,854 | 302,254 |
| | 11,154,963 | 7,075,828 |
| Property and equipment (note 7) | 110,405 | 125,753 |
| Intangible assets (note 8) | 207,920 | 225,420 |
| Goodwill (note 4) | 920,000 | 920,000 |
| Total Assets | \$ 12,393,288 | \$ 8,347,001 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 767,278 | \$ 634,159 |
| Client funds (note 16) | 8,174,919 | 6,153,784 |
| Due to related party (note 11) | 106,033 | 126,283 |
| Current portion of lease liabilities (note 9) | 51,915 | 72,427 |
| Loan payable (note 12) | - | 460,047 |
| | 9,100,145 | 7,446,700 |
| Government loan (note 17) | 54,857 | 57,059 |
| Total Liabilities | 9,155,002 | 7,503,759 |
| Shareholders' Equity | | |
| Share capital (note 10) | 9,430,171 | 6,187,367 |
| Units to be issued (note 10) | 25,000 | - |
| Contributed surplus (note 10) | 322,091 | 341,861 |
| Warrant reserve (note 10) | 817,690 | 783,285 |
| Accumulated deficit | (7,356,665) | (6,469,271) |
| | 3,238,286 | 843,242 |
| Total Liabilities and Shareholders' Equity | \$ 12,393,288 | \$ 8,347,001 |

Commitments and contingencies (note 13)

Subsequent events (note 18)

APPROVED BY THE BOARD OF DIRECTORS:

"Marilyn Schaffer"
Director

"Cameron Chell"
Director

The accompanying notes are an integral part of these interim financial statements

XTM Inc.
INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three months ended March 31,

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Revenue | | |
| Gross prepaid card revenue | \$ 256,881 | \$ 217,458 |
| Commissions and agent fees | (2,802) | (49,416) |
| Net revenue | 254,079 | 168,042 |
| Cost of sales | 180,862 | 153,579 |
| Gross profit | 73,217 | 14,463 |
| Expenses | | |
| Salaries and employee benefits (note 11) | 401,297 | 191,255 |
| Marketing and promotion | 145,406 | 41,647 |
| Professional fees | 100,249 | 110,193 |
| Consulting (note 11) | 59,900 | 93,507 |
| Regulatory and listing fee | 52,814 | 10,142 |
| Stock-based compensation (note 10) | 44,964 | - |
| Office and general | 46,821 | 27,750 |
| Bank charges, interest and accretion (note 12) | 40,071 | 54,547 |
| Rent | 14,101 | 11,061 |
| Insurance | 6,462 | 3,421 |
| Transfer agent fee | 5,708 | - |
| Meals and entertainment | 1,554 | 2,422 |
| Telephone | 1,126 | 1,115 |
| Travel | 372 | 13,415 |
| Depreciation and amortization (notes 7, 8) | 42,766 | 42,090 |
| | 963,611 | 602,565 |
| Loss from operations | (890,394) | (588,102) |
| Other income - Government assistance (note 17) | 3,000 | - |
| Loss before income taxes | (887,394) | (588,102) |
| Income taxes | - | - |
| Net loss and comprehensive loss | \$ (887,394) | \$ (588,102) |
| Net loss per share - Basic and diluted | \$ (0.01) | \$ (0.01) |
| Weighted average number of shares outstanding - Basic and diluted | 122,655,566 | 87,379,750 |

The accompanying notes are an integral part of these interim financial statements

XTM Inc.

INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months ended March 31, 2021 and 2020

| | Share Capital | | Subscription Receipts | Warrant Reserve | Contributed Surplus | Accumulated Deficit | Total Shareholders' Equity |
|-------------------------------------|-------------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|----------------------------|
| | Number of Common Shares | Amount | | | | | |
| Balance, January 1, 2020 | 82,489,218 | \$ 3,079,603 | \$ 595,945 | \$ 491,778 | \$ 100,631 | \$ (2,871,854) | \$ 1,396,103 |
| Issue of shares (note 10) | 5,525,000 | 884,945 | (595,945) | - | - | - | 289,000 |
| Share issuance costs (note 10) | - | (16,722) | - | - | - | - | (16,722) |
| Warrants issued (note 10) | - | (212,792) | - | 212,792 | - | - | - |
| Finders' warrants issued (note 10) | - | (18,173) | - | 18,173 | - | - | - |
| Units to be issued (note 10) | - | - | 25,000 | - | - | - | 25,000 |
| Conversion feature (note 12) | - | - | - | - | 16,089 | - | 16,089 |
| Net loss for the period | - | - | - | - | - | (588,102) | (588,102) |
| Balance, March 31, 2020 | 88,014,218 | \$ 3,716,861 | \$ 25,000 | \$ 722,743 | \$ 116,720 | \$ (3,459,956) | \$ 1,121,368 |
| Balance, January 1, 2021 | 116,810,295 | \$ 6,187,367 | \$ - | \$ 783,285 | \$ 341,861 | \$ (6,469,271) | \$ 843,242 |
| Issue of shares (note 10) | 7,966,663 | 1,194,999 | - | - | - | - | 1,194,999 |
| Share issuance costs (note 10) | - | (74,350) | - | 5,625 | - | - | (68,725) |
| Warrants issued (note 10) | - | (383,453) | - | 383,453 | - | - | - |
| Exercise of warrants (note 10) | 11,274,333 | 1,937,082 | - | (354,673) | - | - | 1,582,409 |
| Exercise of stock options (note 10) | 705,000 | 68,525 | - | - | (21,275) | - | 47,250 |
| Units to be issued (note 10) | - | - | 25,000 | - | - | - | 25,000 |
| Loan conversion (note 12) | 2,941,176 | 500,000 | - | - | - | - | 500,000 |
| Conversion feature (note 12) | - | - | - | - | (35,959) | - | (35,959) |
| Stock-based compensation (note 10) | - | - | - | - | 37,464 | - | 37,464 |
| Net loss for the period | - | - | - | - | - | (887,394) | (887,394) |
| Balance, March 31, 2021 | 139,697,467 | \$ 9,430,171 | \$ 25,000 | \$ 817,690 | \$ 322,091 | \$ (7,356,665) | \$ 3,238,286 |

The accompanying notes are an integral part of these interim financial statements

XTM Inc.
INTERIM STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2021 and 2020

| | For the three months ended March 31, | |
|---|--------------------------------------|-------------------|
| | 2021 | 2020 |
| OPERATING ACTIVITIES | | |
| Net loss | \$ (887,394) | \$ (588,102) |
| <i>Items not affecting cash:</i> | | |
| Stock-based compensation (note 10) | 37,464 | - |
| Accretion of debt and debt discount of loan payable (note 12) | 4,792 | 22,715 |
| Depreciation of property and equipment (note 7) | 25,266 | 24,590 |
| Amortization of intangible assets (note 8) | 17,500 | 17,500 |
| Interest on lease liabilities (note 9) | 1,918 | 3,671 |
| | (800,454) | (519,626) |
| <i>Changes in non-cash working capital:</i> | | |
| Trade receivables | (88,485) | 60,961 |
| Sales taxes | (8,415) | (11,300) |
| Prepaid expenses | 93,011 | (83,279) |
| Cash held in trust | (2,021,135) | 326,682 |
| Accounts payable and accrued liabilities | 133,826 | (319,660) |
| Client funds | 2,021,135 | (326,682) |
| | 129,937 | (353,278) |
| Cash flows used by operating activities | (670,517) | (872,904) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment (note 7) | (9,918) | (488) |
| Cash flows used by investing activities | (9,918) | (488) |
| FINANCING ACTIVITIES | | |
| Advance (to) from related parties (note 11) | (31,600) | (56,600) |
| Advances to related party (note 11) | (20,250) | - |
| Advances from loan payable (note 12) | - | 250,000 |
| Loan conversion (note 12) | (500,000) | - |
| Units to be issued | 25,000 | 25,000 |
| Repayment of lease liabilities (note 9) | (20,512) | (15,933) |
| Proceeds from share issuances (note 10) | 1,694,999 | 884,945 |
| Share issuance costs (note 10) | (74,350) | (16,722) |
| Proceeds from exercise of warrants (note 10) | 1,582,409 | - |
| Proceeds from exercise of options (note 10) | 47,250 | - |
| Cash flows from financing activities | 2,702,946 | 1,070,690 |
| (Decrease) increase in cash | 2,022,511 | 197,298 |
| Cash, beginning of period | 285,853 | 2,466 |
| Cash, end of period | \$ 2,308,364 | \$ 199,764 |

The accompanying notes are an integral part of these interim financial statements

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

1. NATURE OF OPERATIONS

XTM Inc. (the "Company") was incorporated under the Ontario Business Corporations Act on December 1, 2005. The Company's principal business activities include operating as a prepaid card program manager and network branded card issuer. The Company provides the necessary support systems including mobile and web applications and ancillary banking services. The address of the Company's registered office is 67 Mowat Avenue, Suite 437, Toronto, Ontario, M6K 3E3, Canada.

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'. The QB US listing supports broader investor interest as the business rapidly expands into the US market.

During the year ended December 31, 2020 and the three months ended March 31, 2021, 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 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. 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.

The spread of COVID-19 posed challenges to the Company's business. During the year ended December 31, 2020 and the three months ended March 31, 2021, the Company received an aggregate of \$331,620 as part of government assistance available during COVID-19 such as 10% Temporary Wage Subsidy and Canada Emergency Wage Subsidy programs (note 19). During the year ended December 31, 2020, the Company received the Canada Emergency Business Support loan of \$60,000 (note 19). This loan is interest free if fully repaid on or before December 31, 2022. If the loan cannot be repaid by December 31, 2022, it will be converted into a 3-year term loan, charging an interest rate of 5% per annum.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements have been prepared in accordance with International Accounting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), including International Accounting Standards ("IAS") 34, Interim Financial Reporting. These unaudited interim financial statements should be read in conjunction with the audited annual financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS and IFRIC as issued by the IASB in effect as of December 31, 2020.

The accounting policies and methods of computation remain the same as presented in the audited annual financial statements for the year ended December 31, 2020.

There are no new IFRS and/or IFRIC pronouncements issued that are effective for the first time for this interim period that would be expected to have a material impact on the Company.

These interim financial statements have been approved by the Board of Directors on May 25, 2021.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation

These financial statements have been prepared on a historical cost basis.

In the preparation of these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the year.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of loss and comprehensive loss.

Property and Equipment

All items of property and equipment are stated at historical cost, less any accumulated depreciation and accumulated impairment losses. Historical cost includes all costs directly attributable to the acquisition.

Depreciation is recognized in profit or loss on a basis that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Methods of depreciation are as follows:

| | Rate | Method |
|------------------------|------|---|
| Computer equipment | 45% | Diminishing-balance |
| Furniture and fixtures | 20% | Diminishing-balance |
| Servers and hardware | 30% | Diminishing-balance |
| Leasehold improvements | n/a | Straight line over term of the lease |
| Telephone equipment | 20% | Diminishing-balance |
| Right-of-use assets | n/a | Over term of lease in accordance with IFRS 16 |

Depreciation methods, useful lives, and residual values are reviewed at reporting period date and adjusted as appropriate.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Intangible assets

Software platform with finite useful lives is measured at acquisition cost. They are amortized on a straight-line basis over their useful life, which is 3.5 years for software platform, and an impairment loss is recognized in profit or loss when their recoverable amount is less than their net carrying amount.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share capital

Share capital is presented at the value of the shares issued. Costs related to issuing shares are reported net of tax as a deduction of the proceeds from the issue.

Cash held in trust and customer deposits and client funds

Cash in trust and customer deposits are amounts held by the Company at various financial institutions for settlement of clients' funds payable. Client funds are amounts owing on behalf of clients for prepaid debit cards.

Impairment of non-financial assets

The Company assesses the carrying amount of non-financial assets including property and equipment and intangible assets at each reporting date to determine whether there is any indication of impairment. Internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors are also monitored to determine if indications of impairment exist.

An impairment loss is the amount equal to the excess of the carrying amount over the recoverable amount. The recoverable amount is the higher of value in use (being the net present value of expected pre-tax future cash flows of the relevant asset) and fair value less costs of disposal of the asset. The best evidence of fair value is a quoted price in an active market or a binding sale agreement for the same or similar asset. Where neither exists, fair value is based on the best information available to estimate the amount the Company could obtain from the sale of the asset in an arm's length transaction. This is often accomplished by using a discounted cash flow technique.

Impairment is assessed at the cash-generating unit (CGU) level. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets. The assets of the corporate head office are allocated on a reasonable and consistent basis to CGUs or groups of CGUs. The carrying amounts of assets of the corporate head office that have not been allocated to a CGU are compared to their recoverable amounts to determine if there is any impairment loss.

If, after the Company has previously recognized an impairment loss, circumstances indicate that the fair value of the impaired assets is greater than the carrying amount, the Company reverses the impairment loss by the amount the revised fair value exceeds its carrying amount, to a maximum of the previous impairment loss. In no case shall the revised carrying amount exceed the original carrying amount, after depreciation or amortization, that would have been determined if no impairment loss had been recognized. An impairment loss or a reversal of an impairment loss is recognized in the statements of loss and comprehensive loss.

Share based payments

The Company has a stock option plan that is described in Note 10. The granting of stock options represents a benefit given to employees of the Company, which include others providing similar services, and non-employees and constitutes additional compensation to be borne by the Company.

Share based payments issued to employees are valued at the date of the grant using the Black Scholes option pricing model and are included in the statements of loss and comprehensive loss over each tranche's vesting period and credited to the contributed surplus.

Share based payments issued to non-employees are valued at the fair value of the goods and services received, unless they cannot be reliably measured, then the Black Scholes option pricing model is used. The expense is included in the statements of loss and comprehensive loss over each tranche's vesting period which represents the period over which the services have been received and credited to the contributed surplus.

Income (Loss) per share

Basic income (loss) per share amounts are calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is calculated using the treasury method, which assumes that all outstanding stock option grants and warrants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period. As at March 31, 2021 and 2020, all convertible instruments are anti-dilutive.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Revenue Recognition

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized as follows:

1. Identify the contract with a customer,
2. Identify the performance obligations in the contract,
3. Determine the transaction price, which is the total consideration provided by the customer,
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values, and
5. Recognize revenue when the relevant criteria are met for each performance obligation.

The Company recognizes revenue at the time persuasive evidence of an agreement exists, price is fixed and determinable, the delivery has occurred, and collectability is reasonably assured. The Company's revenues are primarily generated from financial service fees charged to cardholders and merchants accepting the cards for payment. Revenue from financial services is generated from multiple sources including transaction fees, cardholder fees, load fees and interchange fees. These fees are recognized on the transaction date. Funds received from customers are held in trust and the corresponding amount of funds available for use are recorded as a liability. Fees charged for card program, website and card design are recognized when services are performed or when the product is transferred to the customer.

Financial instruments

(a) Classification

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The primary measurement categories for financial instruments are measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accounting policy and the classification and measurement bases of the financial instruments as disclosed in the financial statements are:

| Financial Instrument Classification | Measurement |
|--|--------------------|
| Cash | Amortized cost |
| Subscription receipt funds | Amortized cost |
| Cash held in trust and customer deposits | Amortized cost |
| Trade receivables | Amortized cost |
| Loans receivable | Amortized cost |
| Due from related parties | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Client funds | Amortized cost |
| Due to related party | Amortized cost |
| Government loan | Amortized cost |
| Loan payable | Amortized cost |

(b) Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

(c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

The Company applies the simplified method and measures a loss allowance equal to the lifetime expected credit losses for trade receivables.

The Company recognizes in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statements of loss and comprehensive loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statements of loss and comprehensive loss.

Compound financial instrument

Certain financial instruments comprise a liability and an equity component. The various components of these instruments are accounted for in equity and borrowings and other financial liabilities according to their classification. The component classified as borrowings and other financial liabilities is valued at issuance at the present value (taking into account the credit risk) of the future cash flows of an instrument with the same characteristics (maturity, cash flows) but without any option for conversion or redemption in shares. The component classified as equity is defined as the difference between the fair value of the instrument and the fair value of the financial liability component.

Government grants

Government grants are assistance from the government in the form of transfer of resources for past or future compliance with certain conditions relating to the operating activities of the Company. The Company recognizing government grants when there is a reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received. The government grants are recorded as "Other income – Government assistance".

Leases

IFRS 16, Leases ("IFRS 16") was adopted as of January 1, 2019. Until December 31, 2018, payments made under operating leases (net of any incentives received from the lessor) were required to be charged to profit or loss on a straight-line basis over the period of the lease under IAS 17, Leases. Effective for reporting periods beginning on or after January 1, 2019, IFRS 16 now requires operating leases to be recognized on the statement of financial position as a right-of-use asset and as a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is then to be allocated between the lease liability and finance cost, with the finance cost charged to comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is to be depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are to be initially measured on a present value basis. Lease liabilities include the net present value of fixed lease payments discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is to be used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Subsequent to initial measurement, the liability would be reduced for payments made and increased for interest and remeasured to reflect any reassessment or modifications, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is to be reflected in the right-of-use asset, or comprehensive loss if the right-of-use asset is already reduced to zero. The right of use asset is recorded at the amount of the lease liability adjusted by the amount of any previously recognized prepaid or accrued lease payments related to that lease. Payments associated with short-term leases (12 months or less) and leases of low-value assets (less than USD \$5,000) can continue to be recognized on a straight-line basis as an expense in comprehensive loss. IFRS 16 can be adopted on either a full retrospective basis or on a modified retrospective basis with the cumulative effect of applying the standard recognized as an adjustment to the opening accumulated deficit at the date of initial adoption.

The Company adopted IFRS 16 on a modified retrospective basis from January 1, 2019, with no restatement of comparatives, as permitted under the specific transitional provisions in the standard. Right-of-use assets and lease obligation of \$297,794 were recorded as of January 1, 2019, with no impact on accumulated deficit. When measuring lease liabilities, the Company discounted lease payments using an incremental borrowing rate of 13%.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Going concern

The financial statements were prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The assessment of going concern involves significant judgement based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

Useful life of tangible and intangible assets

The depreciation and amortization methods applied are reviewed at year end. If there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate. Considering the future development plans and estimation of benefits derivable from tangible and intangible assets, management has assessed no changes in useful lives during the current year.

Impairment

Management assesses impairment of non-financial assets such as goodwill, intangible assets and property and equipment. In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit ("CGU") based on expected future cash flows. The Company has applied judgment in its assessment of the appropriateness of the determination of CGU's.

Goodwill is subject to impairment testing on an annual basis. The Company performed its annual assessment of goodwill impairment as at December 31st, 2020. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. In addition, at each reporting period, the Company reviews whether there are any indicators that the recoverable amount of intangible assets and property and equipment may be less than their carrying amount.

Goodwill, intangible assets and property and equipment were reviewed for impairment by determining the recoverable amount of each CGU or groups of CGUs to which the goodwill, intangible assets or property and equipment relate. Management estimated the recoverable amount of the CGUs based on the higher of value-in-use ("VIU") and fair value less costs of disposal ("FVLCD"). The VIU calculations are based on expected future cash flows. When measuring expected future cash flows, management makes key assumptions about future growth of profits which relate to future events and circumstances. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate. Actual results could vary from these estimates.

Allowances for expected credit losses

The Company is exposed to credit risk associated with its trade receivables. Management reviews the trade receivables at each reporting date in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs. The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results are used to calculate the run rates of default which are then applied over the expected life of the trade receivables, adjusted for forward looking estimates.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

Share-based payments

The fair value of all share-based payments granted are determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of the options.

4. GOODWILL

The Company has determined that it has one CGU. The Company completed its annual goodwill and intangible assets impairment testing on December 31, 2020 and determined that the intangible assets and goodwill amounts were not impaired based on a discounted cash flow model utilizing an estimate revenue growth range of 2% to 247% through 2025 (2019 – 10% - 214%), long-term growth rate of 2.0% (2019 – 2.0%) and an after tax weighted average cost of capital of 29.90% (2019 – 22%).

The cash flow projections used in estimating the recoverable amounts are generally consistent with results achieved historically adjusted for anticipated growth. The Company believes that any reasonably possible change in key assumptions on which the recoverable amounts were based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

The Company did not perform impairment testing as at March 31st, 2021.

5. CASH

| | As at March 31, 2021 | As at December 31, 2020 |
|-------------------------|-------------------------|----------------------------|
| Cash consists of: | | |
| RBC - Operating account | \$ 1,891,591 | \$ 370,007 |
| RBC - USD account | 497,716 | 7,427 |
| Funds in transit | (80,943) | (91,581) |
| | \$ 2,308,364 | \$ 285,853 |

6. PREPAID EXPENSES

| | As at March 31, 2021 | As at December 31, 2020 |
|------------------------------|-------------------------|----------------------------|
| Prepaid expenses consist of: | | |
| Prepaid insurance | \$ 3,165 | \$ 6,115 |
| Prepaid consulting services | 55,315 | 145,376 |
| | \$ 58,480 | \$ 151,491 |

XTM Inc.**Notes to the financial statements****For the three months ended March 31, 2021 and 2020****7. PROPERTY AND EQUIPMENT**

| | Computer Equipment | Furniture and Fixtures | Servers and Hardware | Right-of- use asset | Leasehold Improve- ments | Telephone Equipment | Total |
|-------------------------------------|-----------------------|------------------------------|----------------------------|------------------------|--------------------------------|------------------------|--------------|
| Cost | | | | | | | |
| Balance as at January 1, 2020 | 31,997 | 69,687 | 25,000 | 195,895 | 91,303 | 8,707 | 422,589 |
| Additions | 11,494 | 488 | - | - | - | - | 11,982 |
| Balance as at December 31, 2020 | \$ 43,491 | \$ 70,175 | \$ 25,000 | \$ 195,895 | \$ 91,303 | \$ 8,707 | \$ 434,571 |
| Additions | 9,918 | - | - | - | - | - | 9,918 |
| Balance as at March 31, 2021 | \$53,409 | \$ 70,175 | \$ 25,000 | \$ 195,895 | \$ 91,303 | \$ 8,707 | \$ 444,489 |
| Accumulated Depreciation | | | | | | | |
| Balance as at January 1, 2020 | (23,761) | (44,169) | (10,125) | (67,243) | (58,082) | (7,592) | (210,972) |
| Depreciation | (4,059) | (4,771) | (3,985) | (67,520) | (17,302) | (207) | (97,846) |
| Balance as at December 31, 2020 | \$ (27,820) | \$ (48,940) | \$ (14,110) | \$ (134,763) | \$ (75,384) | \$ (7,799) | \$ (308,818) |
| Depreciation | (2,321) | (1,062) | (817) | (16,695) | (4,326) | (45) | (25,266) |
| Balance as at March 31, 2021 | \$ (30,140) | \$ (50,002) | \$ (14,927) | \$ (151,458) | \$ (79,711) | \$ (7,844) | \$ (334,084) |
| Carrying Amount | | | | | | | |
| Balance as at December 31, 2019 | \$ 15,671 | \$ 21,234 | \$ 10,890 | \$ 61,132 | \$ 15,919 | \$ 908 | \$ 125,753 |
| Balance as at March 31, 2021 | \$ 23,269 | \$ 20,173 | \$ 10,073 | \$ 44,437 | \$ 11,592 | \$ 863 | \$ 110,405 |

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

8. INTANGIBLE ASSETS

| Cost | Software Platform |
|--|-------------------|
| | \$ |
| Balance as at January 31, 2020 | 245,000 |
| Additions | 170,000 |
| Balance as at December 31, 2020 | \$ 415,000 |
| Additions | - |
| Balance as at March 31, 2021 | \$ 415,000 |
| Accumulated Amortization | |
| Balance as at January 1, 2020 | 119,580 |
| Amortization | 70,000 |
| Balance as at December 31, 2020 | \$189,580 |
| Amortization | 17,500 |
| Balance as at March 31, 2021 | \$207,080 |
| Carrying Amount | |
| Balance as at December 31, 2020 | \$ 225,420 |
| Balance as at March 31, 2021 | \$ 207,920 |

9. LEASES LIABILITIES

Lease liabilities related to an office lease and vehicle lease.

| | | |
|---------------------------------------|----|----------|
| Balance, January 1, 2020 | | 129,901 |
| Repayment of lease liability | | (68,057) |
| Interest expense on lease liability | | 10,607 |
| Balance, December 31, 2020 | \$ | 72,427 |
| Repayment of lease liability | | (22,430) |
| Interest expense on lease liability | | 1,918 |
| Balance, March 31, 2021 | \$ | 51,915 |
| Lease liabilities due within one year | \$ | 51,915 |
| Lease liabilities – long term | | - |
| Total lease liabilities | \$ | 51,915 |

The Company makes variable lease payments for property tax, insurance, and maintenance on the office lease. During the three months ended March 31, 2021, the Company recorded an expense of \$14,101 for the variable lease payments (three months ended March 31, 2020 - \$11,061).

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

10. CAPITAL STOCK

Share capital

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares.

| | Number of common shares | \$ |
|--|----------------------------|------------------|
| Shares issued and outstanding | | |
| Shares issued and outstanding as at January 1, 2020 | 82,489,218 | 3,079,603 |
| Shares issued in private placements (ii) | 7,324,011 | 1,135,543 |
| Share issuance costs, including broker warrants (ii) | - | (72,162) |
| Allocation to warrants (ii) (iii) | - | (401,702) |
| Shares issued for subscription receipts (iii) | 3,825,000 | 595,945 |
| Shares issued for the exercise of warrants | 7,244,667 | 788,611 |
| Shares issued for the exercise of stock options | 4,275,000 | 373,303 |
| Shares issued for stock-based compensation | 1,740,000 | 222,720 |
| Shares issued for restricted stock units | 3,285,001 | 465,506 |
| Additional common shares (iii) | 6,627,398 | - |
| Shares issued and outstanding as at December 31, 2020 | 116,810,295 | 6,187,367 |
| Shares issued in private placements (iv) | 7,966,663 | 1,194,999 |
| Share issuance costs, including broker warrants (iv) | - | (74,350) |
| Allocation to warrants (iv) | - | (383,453) |
| Shares issued for the exercise of warrants | 11,274,333 | 1,937,082 |
| Shares issued for the exercise of stock options | 705,000 | 68,525 |
| Shares issued for loan conversion | 2,941,176 | 500,000 |
| Shares issued and outstanding as at March 31, 2021 | 139,697,467 | 9,430,171 |

Year ended December 31, 2020

- (i) On January 24, 2020, the Company issued 810,000 units at \$0.17 per unit for gross proceeds of \$137,700. Each units consist of one common share and one common shares purchase warrant exercisable for a period of two years at \$0.23 per common share. The Company issued 64,800 finder warrants entitling the holder to acquire one additional common share of the Company at a price of \$0.17 per share for a period of two years. The fair value of warrants was \$33,915 and finder warrants of \$3,356 using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.498%, expected life of 2 years and stock price volatility of 89% with zero dividend yield.

On February 4, 2020, the Company issued 890,000 units at \$0.17 per unit for gross proceeds of \$151,300. Each units consist of one common share and one common shares purchase warrant exercisable for a period of two years at \$0.23 per common share. The Company issued 24,000 finder warrants entitling the holder to acquire one additional common share of the Company at a price of \$0.17 per share for a period of two years. The fair value of warrants was \$37,257 and finders warrants of \$1,242 using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.484%, expected life of 2 years and stock price volatility of 89% with zero dividend yield.

On June 9, 2020, the Company issued 147,059 units at \$0.17 per unit for gross proceeds of \$25,000. Each units consist of one common share and one common shares purchase warrant exercisable for a period of two years at \$0.23 per common share. The fair value of the warrants was \$7,644 using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.279%, expected life of 2 years and stock price volatility of 89% with zero dividend yield.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

10. CAPITAL STOCK (CONTINUED)

On October 26, 2020, the Company issued 2,810,152 units at \$0.15 per unit for gross proceeds of \$421,523. Each units consist of one common share and one common shares purchase warrant exercisable for a period of two years at \$0.30 per common share. The Company issued 84,008 finder warrants entitling the holder to acquire one additional common share of the Company at a price of \$0.30 per share for a period of two years. The fair value of warrants was \$89,528 and finders warrants of \$1,238 using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.206%, expected life of 2 years and stock price volatility of 89% with zero dividend yield.

On December 29, 2020, the Company issued 2,666,800 units at \$0.15 per unit for gross proceeds of \$400,020. Each units consist of one common share and one common shares purchase warrant exercisable for a period of two years at \$0.30 per common share. The Company issued 84,008 finder warrants entitling the holder to acquire one additional common share of the Company at a price of \$0.30 per share for a period of two years. The fair value of warrants was \$87,035 and finders warrants of \$2,102 using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.208%, expected life of 2 years and stock price volatility of 89% with zero dividend yield.

During the year ended December 31, 2020, the Company incurred cash share issuance costs of \$66,098.

- (ii) At December 31, 2019, 3,825,000 subscription receipts were issued and outstanding pursuant to the subscription receipt private placements on September 19, 2019, September 30, 2019 and November 29, 2019 for gross proceeds of \$650,250. The Company incurred issue costs of \$54,305. As at December 31, 2019, the net proceeds have been presented as subscription receipt funds on the statement of financial position. Each subscription receipt was sold at a price of \$0.17 per subscription receipt and entitled the holder to receive, immediately upon the receipt of conditional approval of the CSE to list and trade the common shares on the CSE on or before February 14, 2020, without any further action by the holder, one common share and one warrant. Each warrant will be exercisable to acquire one common share at a price of \$0.23 for 24 months from the date of issuance.

On February 14, 2020, the Ontario Securities Commission cleared the Company to file its final Prospectus and become a reporting issuer in the provinces of Ontario, British Columbia and Alberta. The Company also received conditional approval from the Canadian Securities Exchange (the 'CSE') for the listing of its common shares on the CSE subject to the completion of customary requirements of the CSE, including the receipt of all required documentation. Concurrent with the listing, all 3,825,000 Subscription receipts were converted to 3,825,000 common shares and 3,825,000 warrants. The net subscription receipt funds of \$595,945 were released to the Company. The Company recorded \$160,120 as fair value of the warrants issued using the Black-Scholes option pricing model assuming risk-free interest rate of 1.484%, expected life of 2 years and stock price volatility of 89% with zero dividend yield.

- (iii) Additional common shares of 6,627,398 were issued in error in connection with the Company's listing on the CSE. In April 2021, 5,377,500 of these common shares were returned to treasury and cancelled (note 19).

Three months ended March 31, 2021

- (iv) On February 26, 2021, the Company closed non-brokered placement offering with strategic investors. The placement consisted of 7,966,663 units at a price of \$0.15 per unit for gross proceeds of \$1,194,999. Each unit consists of one common share and one warrant exercisable for one common share at a price of \$0.30 for a period of 24 months after closing.

The fair value of warrants was \$383,453 using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.309%, expected life of 2 years and stock price volatility of 89% with zero dividend yield.

The Company incurred cash share issuance costs of \$68,725.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

10. CAPITAL STOCK (CONTINUED)

Restricted stock units

On December 1, 2020, the Company adopted a restricted share unit ("RSU") plan (the "RSU Plan") pursuant to which the Company may grant options and RSUs to attract, motivate and retain directors, officers, employees and consultants, and to align the interests of plan participants with those of the Company's shareholders. The maximum number of RSUs issuable under the RSU Plan together with the number of stock options issuable under the Company's existing stock option plan (the "Stock Option Plan") may not exceed 20% of the number of issued and outstanding common shares of the Company as at the date of a grant under the RSU Plan or the Stock Option Plan.

On November 30, 2020, the Company granted 2,685,001 RSUs to one employee and five consultants of the Company under the RSU Plan, which RSUs vest immediately upon their grant. The RSU's issued had a grant date fair value of \$377,233 based on the closing price per common share. The expense is recorded in stock-based compensation on the statement of loss and comprehensive loss.

On December 31, 2020, the Company issued 600,000 RSUs to its Chief Financial Officer and two Board directors which vested immediately upon their grant. The RSU's issued had a grant date fair value of \$88,273 based on the closing price per common share. The expense is recorded in stock-based compensation on the statement of loss and comprehensive loss.

No RSUs were granted during the three months ended March 31, 2021.

Escrow shares

As at March 31, 2021, 4,090,125 (December 31, 2020 – 5,032,500) common shares were subject to escrow. Under the escrow agreement, 10% of the shares were released upon the listing of the Company's securities on the CSE, and 15% are to be released every 6 months thereafter, subject to acceleration provisions provided for in NP 46-201.

Stock options

The Board initially adopted a stock option plan on March 1, 2018 which was established to provide incentive to directors, officers, employees, and consultants. The plan provided for issuance of common shares upon exercise of options equal to a maximum of 20% of the issued and outstanding common shares from time to time. The plan was approved by the shareholders on March 1, 2018.

Stock options

| | Three Months Ended March 31, 2021 | | Year Ended December 31, 2020 | |
|--|--------------------------------------|---------------------------------------|---------------------------------|---------------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Balance outstanding, beginning of year | 6,630,000 | \$0.15 | 5,905,000 | \$0.09 |
| Granted | - | - | 5,000,000 | 0.17 |
| Exercised | (1,205,000) | 0.06 | (4,275,000) | 0.09 |
| Balance outstanding, end of year/period | 5,425,000 | \$0.17 | 6,630,000 | \$0.15 |

On May 20, 2020, the Company issued 5,000,000 stock options to directors, management and consultants. The options have an exercise price of \$0.17 and expiry of two years. The options vest 25% on grant date and an additional 25% each 6 months after grant date.

On November 1, 2020, the Company extended 1,000,000 stock options to March 1, 2021 and 180,000 stock options to March 31, 2021. The Company recorded an incremental fair value of \$8,400 to stock-based compensation for the year ended December 31, 2020.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

10. CAPITAL STOCK (CONTINUED)

During the three months ended March 31, 2021, the Company recorded \$37,464 in stock based compensation (three months ended March 31, 2020 - \$Nil) related to stock options issued.

The fair value of stock options was determined using the Black Scholes model with the following assumptions:

| | December 31, 2020 | December 31, 2019 |
|-----------------|----------------------|----------------------|
| Share price | \$0.16 | \$0.07 |
| Exercise price | \$0.17 | \$0.10 to \$0.20 |
| Term | 2 years | 2 to 3 years |
| Dividend rate | 0% | 0% |
| Risk-free rate | 1.72% | 1.61% to 1.63% |
| Volatility | 89% | 89% |
| Forfeiture rate | 0% | 0% |

Details of options outstanding as at March 31, 2021:

| Expiry Date | Number of Options | Exercise Price (\$) | Number of Options Exercisable |
|--------------|-------------------|---------------------|-------------------------------|
| May 15, 2022 | 50,000 | 0.10 | 50,000 |
| July 8, 2021 | 400,000 | 0.20 | 400,000 |
| May 20, 2022 | 4,975,000 | 0.17 | 2,500,000 |

The weighted average life of the options outstanding at March 31, 2021 is 1.07 years and weighted average exercise price of \$0.17 per stock option.

Warrants

Summary of the warrant activity is as follows:

| | Number of Warrants | Weighted Avg. Exercise Price (\$) |
|----------------------------------|--------------------|---|
| Balance January 1, 2020 | 23,929,118 | 0.12 |
| Issued January 24, 2020 | 810,000 | 0.23 |
| Issued February 4, 2020 | 890,000 | 0.23 |
| Issued February 14, 2020 | 3,825,000 | 0.23 |
| Issued June 9, 2020 | 147,059 | 0.23 |
| Issued October 26, 2020 | 2,810,152 | 0.30 |
| Issued December 29, 2020 | 2,666,800 | 0.30 |
| Exercised | (6,416,667) | 0.08 |
| Balance December 31, 2020 | 28,661,462 | 0.19 |
| Issued February 26, 2021 | 7,966,663 | 0.30 |
| Exercised | (11,088,333) | 0.14 |
| Expired | (5,595,000) | 0.13 |
| Balance March 31, 2021 | 19,944,792 | 0.27 |

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

10. CAPITAL STOCK (CONTINUED)

Warrants outstanding as at March 31, 2021 were as follows:

| Expiry Date | Number of Warrants | Exercise Price (\$) |
|--------------------|---------------------------|----------------------------|
| April 30, 2021 | 785,000 | 0.13 |
| December 27, 2021 | 44,118 | 0.23 |
| January 24, 2022 | 810,000 | 0.23 |
| February 4, 2022 | 890,000 | 0.23 |
| February 14, 2022 | 3,825,000 | 0.23 |
| June 9, 2022 | 147,059 | 0.23 |
| October 26, 2022 | 2,810,152 | 0.30 |
| December 29, 2022 | 2,666,800 | 0.30 |
| February 26, 2023 | 7,966,663 | 0.30 |

The weighted average life of the warrants outstanding and exercisable at March 31, 2021 is 0.71 years.

Finder Warrants

Summary of the finder warrants activity is as follows:

| | Number of Warrants | Weighted Average Exercise Price (\$) |
|----------------------------------|---------------------------|---|
| Balance January 1, 2020 | 1,086,000 | 0.09 |
| Issued January 24, 2020 | 64,800 | 0.17 |
| Issued February 4, 2020 | 24,000 | 0.17 |
| Issued October 26, 2020 | 34,004 | 0.30 |
| Issued December 29, 2020 | 50,004 | 0.30 |
| Exercised | (828,000) | 0.11 |
| Balance December 31, 2020 | 430,808 | 0.15 |
| Exercised | (186,000) | 0.10 |
| Balance March 31, 2021 | 244,808 | 0.21 |

Finder warrants outstanding as at March 31, 2021 were as follows:

| Expiry Date | Number of Warrants | Exercise Price (\$) |
|--------------------|---------------------------|----------------------------|
| April 30, 2021 | 72,000 | 0.10 |
| January 24, 2022 | 64,800 | 0.17 |
| February 4, 2022 | 24,000 | 0.17 |
| October 26, 2022 | 34,004 | 0.30 |
| December 29, 2022 | 50,004 | 0.30 |

The weighted average life of the finder's warrants outstanding at March 31, 2021 is 0.91 years.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

11. RELATED PARTY BALANCES AND TRANSACTIONS

Key management personnel remuneration comprises the Company's President and Chief Executive Officer and Chief Financial Officer.

For the three months ended March 31, 2021, the Company incurred related party expenses of \$42,000 (three months ended March 31, 2020 - \$49,000). These amounts related to salaries and employee benefits to the Company's Chief Executive Officer.

For the three months ended March 31, 2021, the Company incurred related party expenses of \$19,250 (three months ended March 31, 2020 - \$15,000). These expenses related to the payment of consulting fees to the Company's Chief Financial Officer.

At March 31, 2021, the Company has a balance receivable of \$333,854 (December 31, 2020 - \$302,254) from the entities controlled by a director of the Company.

At March 31, 2021, the Company has a balance payable of \$106,033 (December 31, 2020 - \$126,283) to a related party controlled by a director of the Company.

The amounts due from and to related parties in the normal course of business are unsecured, non-interest bearing and have no specific terms of repayment.

12. LOAN PAYABLE

On September 17, 2019, the Company entered into a loan agreement for bridge financing up to a maximum amount of \$1,000,000. Advances from the maximum amount shall be available in the form of draws from the credit facility. The initial advance of \$250,000 was received on September 20, 2019. Each subsequent advance should be in the amount of at least \$100,000. The credit facility is payable 18 months from the initial advance.

The lender had the option to convert all or any outstanding loan amount into common shares at a fixed price of \$0.17 per common share up to maturity. The conversion feature on the initial advance of \$250,000 was determined to \$19,870, recorded to contributed surplus, using a debt discount rate of 20%.

During the year ended December 31, 2020, the Company received an additional \$250,000 advance on the loan payable facility. The conversion feature on the additional advance of \$250,000 was determined to \$16,089, recorded to contributed surplus, using a debt discount rate of 20%.

On March 19, 2021, the loan payable with a face value of \$500,000 was converted into 2,941,176 common shares at an exercise price of \$0.17 (note 10).

The Company also issued the lender 5,000,000 warrants to acquire one common share of the Company at an exercise price of \$0.17 per common share for a period of two years. The warrants have a fair value of \$101,542 using the Black Scholes model with the following assumptions: exercise price of \$0.17, expected life of two years, volatility of 89% and risk free rate of 1.6%. The warrants have been treated as a debt issue costs and are amortized over the term of the loan.

The interest is calculated at the rate per annum as set out below:

| <u>Period:</u> | <u>Interest rate</u> |
|--------------------------------------|-----------------------------|
| to March 18, 2020 | 12% |
| March 19, 2020 to September 18, 2020 | 14% |
| September 19, 2020 to March 18, 2021 | 16% |
| As of March 19, 2021 | 18% |

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

12. LOAN PAYABLE (CONTINUED)

| As at | March 31 2021 | December 31 2020 |
|--------------------|------------------|---------------------|
| | \$ | \$ |
| Opening balance | 460,047 | 152,942 |
| Advances | - | 250,000 |
| Conversion feature | 35,959 | (16,089) |
| Accretion expense | 3,994 | 73,194 |
| Ending balance | 500,000 | 460,047 |
| Loan conversion | (500,000) | - |
| Ending balance | - | - |

13. COMMITMENTS AND CONTINGENCIES

In the ordinary course of operating, the Company may from time to time be subject to various claims or possible claims. Management believes that there are no claims or possible claims that if resolved would either individually or collectively result in a material adverse impact on the Company's financial position, results of operations, or cash flows. These matters are inherently uncertain, and management's view of these matters may change in the future.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of cash, subscription receipt funds, trade receivables, loan receivable, due from related parties, accounts payable and accrued liabilities, and due to related party approximate their carrying values due to the relatively short-term nature of these financial instruments. The carrying value of the loan payable and government loan approximates its fair value as the interest rates are consistent with the current rates offered to the Company for loans with similar terms.

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks.

(a) Market risk

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have any financial instrument subject to floating interest rates; therefore, interest rate risk is considered low.

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at March 31, 2021, the Company had the following balances denominated in US dollars: Cash of \$497,716 (December 31, 2020 - \$5,833) and accounts payable and accrued liabilities of \$58,220 (December 31, 2020 - \$113,263). As at March 31, 2021, a 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would result in an approximate \$55,594 increase or decrease, respectively, in net loss and comprehensive loss.

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(iii) Other price risks

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of dealing with credit-worthy counterparties. The Company's exposure and credit ratings of counterparties is continuously monitored. The Company's maximum exposure to credit risk for its trade receivables is summarized as follows:

| | March 31, 2021 | December 31, 2020 |
|--------------------------------------|----------------|-------------------|
| | \$ | \$ |
| Trade receivables aging: | | |
| 0-30 days | 154,114 | 93,884 |
| 31-90 days | 11,134 | 6,428 |
| Greater than 90 days | 34,360 | 10,811 |
| | 199,608 | 111,123 |
| Provision for expected credit losses | (4,000) | (4,000) |
| Net trade receivables | 195,608 | 107,123 |

The Company applies the simplified approach to provide for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The expected credit loss provision is based on the Company's historical collections and loss experience and incorporates forward-looking factors, where appropriate.

All of the Company's cash are held with a major Canadian financial institution and thus the exposure to credit risk is considered insignificant. Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to trade receivables.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its normal operating requirements. The Company coordinates this planning and budgeting process with its financing activities through its capital management process.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient funds to meet liabilities as they come due and to execute on its business plan. The Company manages liquidity risk by maintaining adequate cash reserves and loan facilities and by continuously monitoring forecast and actual cash flows. At March 31, 2021, the Company had a cash balance of \$2,308,364 (December 31, 2020 – \$285,853).

Maturity analysis of liabilities which are due in next twelve months can be summarized as follows:

| | At March 31, 2021 | At December 31, 2020 |
|--|-------------------|----------------------|
| | \$ | \$ |
| Accounts payable and accrued liabilities | 767,278 | 634,159 |
| Due to related party | 106,033 | 126,283 |
| Lease payments | 51,915 | 75,708 |
| Loan payable | - | 460,047 |
| Total | 925,226 | 1,296,197 |

XTM Inc.

Notes to the financial statements

For the three months ended March 31, 2021 and 2020

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

As at December 31, 2020, the Company had positive working capital of \$2,054,818 (December 31, 2020 – negative working capital of \$370,872). As at March 31, 2021, the Company has access to a line of credit of \$60,000.

15. MANAGEMENT OF CAPITAL

At March 31, 2021, the Company's capital consists of the shareholders' equity in the amount of \$3,238,286 (December 31, 2020 - \$843,242).

The Company's capital management is designed to ensure that it has sufficient financial flexibility both in the short and long-term to support its financial obligations and the future development of the business.

The Company manages its capital with the following objectives:

- a) Ensuring sufficient liquidity is available to support its financial obligations and to execute its operating strategic plans;
- b) Maintaining financial capacity and flexibility through access to capital to support future development of the business;
- c) Minimizing its cost of capital and considering current and future industry, market and economic risks and conditions; and
- d) Utilizing short term funding sources to manage its working capital requirements and long term funding sources to match the long-term nature of the property, plant and equipment of the business.

16. CASH HELD IN TRUST AND CUSTOMER DEPOSITS AND CLIENT FUNDS

Acting as a paying agent, the Company had \$8,174,919 in restricted funds on deposit and a corresponding liability for client deposits as at March 31, 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.

17. GOVERNMENT LOAN

On April 21, 2020, the Company received a \$40,000 Canada Emergency Business Account (‘CEBA’) loan from the Government of Canada. On December 16, 2020, the Company received an additional \$20,000 CEBA loan. Both loans are unsecured and interest-free until December 31, 2020, at which time the remaining balance will convert to a 3-year term loan at an interest rate of 5% per annum. If the balance of the loans are repaid on or before December 31, 2022, there will be a loan forgiveness of up to 33% or \$20,000. On initial recognition, the loans were recorded at fair value using a discount rate of 10%, the discount of \$4,558 has been recognized as other income – government assistance in the statement of loss and comprehensive loss.

| As at | March 31 2021 | December 31 2020 |
|---|------------------|---------------------|
| | \$ | \$ |
| Opening balance | 57,059 | - |
| Advances | - | 60,000 |
| Discount for interest free period – government assistance | (3,000) | (4,558) |
| Interest accretion | 798 | 1,617 |
| Ending balance | 54,857 | 57,059 |

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18. SUBSEQUENT EVENTS

Additional common shares of 6,627,398 were issued in error in connection with the Company's listing on the CSE. In April 2021, 5,377,500 of these common shares were returned to treasury and cancelled (note 10).

Subsequent to March 31, 2021, the Company issued 2,435,353 common shares for warrants and options exercised for gross proceeds of \$520,966.