

# XTM Inc.

CSE: PAID, OTCQB: XTMIF, FSE: 7XT  
[www.XTMINC.com](http://www.XTMINC.com)

## Management's Discussion and Analysis

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**For the periods ended June 30, 2023 and 2022**

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

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## INTRODUCTION

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This Management's Discussion and Analysis ("MD&A") prepared as of August 28<sup>th</sup>, 2023, reviews the financial condition and results of operations of XTM Inc. (the "Company" or "XTM") for the period ended June 30, 2023 and all other material events up to the date of this report. The following discussion should be read in conjunction with a) the annual audited consolidated financial statements and related notes for the year ended December 31, 2022, and b) unaudited consolidated condensed interim financial statements for the three months ended June 30, 2022 together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. These statements can be found under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A has been prepared in compliance with the requirements of section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. The Company's unaudited consolidated condensed interim financial statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC") All dollar amounts are in Canadian dollars, unless otherwise noted.

The Company's certifying officers are responsible for ensuring that the audited consolidated financial statements and MD&A do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading considering the circumstances under which it was made. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of XTM's Subordinate Voting Shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates the materiality in this regard referencing all relevant circumstances, including potential market sensitivity. The Company's directors certify that the audited consolidated financial statements and MD&A present, in all material respects, the financial condition, results of operations and cash flows, of the Company as the date hereof.

## ACCOUNTING PERIODS

The following Management's Discussion & Analysis ("MD&A") is based on information in the unaudited condensed consolidated interim financial statements and accompanying notes thereto for the period ended June 30, 2023. Comparative amounts in the unaudited condensed consolidated interim financial statements and accompanying notes thereto are for the period ended June 30, 2022, and year-ended December 31, 2022.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain sections of this MD&A may contain "forward-looking statements" within the meaning of applicable securities legislation. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words. Forward-looking statements may

relate to the Company's future financial conditions, results of operations, plans, objectives, performance or business developments. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company as of the date of such statements, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. All 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**

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The Company's main business is as a fintech innovator disseminating earned wages, gratuities, and expense reimbursements to workers primarily in the hospitality, personal care, and food delivery space, but as of late entering new verticals that can also benefit from its solution. XTM is the originator of the Today™ program, a bespoke software solution specifically designed for restaurateurs, personal care service providers, food delivery operators, and other establishments with a similar need to provide staff with funds in near real-time. It is comprised of a Today wallet accessible via the internet or by a free mobile app, and a companion Visa or Mastercard debit card with free banking features. Currently the solution is used by thousands of locations and their staff across Canada, and is now entering the United States.

The head office, principal address, and registered office of the Company is located at 67 Mowat Avenue, Suite 437, Toronto, Ontario, Canada, M6K 3E3 and the United States office is located at 1221 Brickell Ave Suite 900 Miami, FL. 33310.

During the years ended December 31, 2022, 2021, and 2020, 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. The start of the Russia/Ukraine War and ensuing global uncertainty especially as it relates to financial markets resulted on June 13, 2022, the MSCI ACWI index, which tracks stock prices from both emerging and developed markets, officially slipping into a bear market, falling 21% from a mid-November peak. It is not possible to reliably estimate the length and severity that the bear market will have on the financial results and condition of the Company in future periods.

## **RECENT EVENTS**

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The following notable events occurred after the period covered by the Company's June 30, 2023 unaudited consolidated financial statements and MD&A:

- The Company brought to market several new products over the past 6 months including:

- Today Goals: The Company launched an in-app financial planning and insights tool, using artificial intelligence for predictability and gamification to assist members in building financial wellness.
- Today Wellness: Through its partnership with CloudMD Software & Services Inc., the Company launched virtual healthcare access to its Today Program members. The Company began piloting the program on August 1, 2023 with plans for a full roll out before the end of Q4 2023.
- On August 18, 2023, the Company completed its transaction (the “Purchase Agreement”) to acquire (the “Transaction”) all the issued and outstanding securities of QRails Inc. (“QRails”). The securities of QRails will be acquired from its current shareholders (the “Sellers”) for total consideration of US\$3,500,000, consisting of US\$100,000 in cash with the remaining US\$3,400,000 to be paid through the issuance of common shares.
- The Company is finalizing a USD \$30M to \$90M Debt Facility for Earned Wage Access (“EWA”) lending. This will represent one of the largest debt facility for EWA lending in North America, and will allow the Company to rapidly scale its EWA product. The Company expects to close on the facility in Q3 2023.
- With the completion of the QRails acquisition, the Company was featured as a contender in the disruptive payroll and EWA space in FT Partners “[Innovations and Payroll Human Capital Management, August 2023 Report](#)”

## HIGHLIGHTS FOR Q2 2023

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The Company views the revenue, increased active user base, and GDV achievements as a clear sign of continued positive momentum in the hospitality space even though economic headwinds are putting a strain on consumer discretionary spend. Revenue of \$1.6MM in Q2 2023 was the highest on record for the Company.

- Gross dollar value (“GDV”) loads on the Company’s platform was \$170.8MM for the quarter. This was the highest quarter in the Company’s brief history, surpassing \$143.0MM in Q1 2023 and an increase of 47% from \$116.5MM in Q2 2022;
- To reflect the mix of full and part-time Today employees the Company is using a single member/user metric, “Total Active Users” (defined as a Today wallet holder with at least one transaction in the past 6 months). The Company’s Total Active User count was 119K as at the end of the Q2 2023 from 83K at the end of Q2 2022;
- Revenue was \$1.6MM for the quarter. Q2 2023 was the strongest quarter for revenue since the Company’s inception, increasing \$333K or 26% compared to Q2 2022, and \$191K or 13% compared to Q1 2023;
- Gross Profit was \$130K or 8% of revenue for the quarter; this compares to \$297K or 23% of revenue for Q2 2022 with the lower percentage a result of one-time fees associated with the QRails transaction;
- Operating expenses were \$2,218K for the quarter. Q2 2023 saw an increase of 5% or \$114K compared to \$2,104K for Q2 2022 with the main driver being increase in professional fees to support the acquisition of QRails, offset by reduction in contract engineering resources and investor relations;
- Net loss was \$2,425K for the quarter. Current quarter net loss increased compared to a net loss of \$1,871K for Q2 2022 mainly due to an increased focus on security, increases in fraud monitoring and cyber protection;

- Cash totaled \$0.4MM as at June 30, 2023, down \$0.7MM from Q1 2023's total of \$1.1MM. The reduction is mainly due to the Company funding operations of QRails, and investments into new products including platform improvements to support new verticals, Earned Wage Access (EWA) and Tip and Gratuity allocation and distribution solution.
- In July and August, the Company reduced costs by leveraging the strengths of the QRails and XTM teams and reducing redundancies. The Company will continue to seek efficiencies in banking, network fees, licensing fees and payroll with a goal to cash-flow positive.
- After June 30, 2023, the Company received a CAD \$2,000,000 short-term bridge-loan for the purpose of supporting the Company's working capital requirements until the close of the Convertible Debt Financing.

## SUMMARY OF ANNUAL RESULTS

### KEY PERFORMANCE INDICATORS AND NON-IFRS MEASURES

The key performance indicators ("KPI's") and non-IFRS measures for the Company are gross dollar value load ("GDV"), Current Active Users, and Total Active Users. The Company's success will be measured by its growth in revenue from one reporting period to the next and is directly a result of increased dollar value transacted through its platform. Revenue growth is dependent on the Company continuing to sign on new hospitality locations, increase the percentage of GDV used for POS transactions, and the addition of new products to enhance current programs.

### QUARTERLY RESULTS

The following table summarizes information derived from the Company's unaudited condensed consolidated financial statements as well as KPI's the Company uses to assess performance, for each of the eight most recently completed quarters:

Quarter Ended	Financial Results					Key Performance Indicators		
	Revenue	Cost Of Sales	Gross Profit	Net Income (loss)	Net Income (loss) per share	GDV	Current Active Users (past month)	Total Active Users (past 6 months)
Statement of Loss and Comprehensive Loss	\$	\$	\$	\$	\$	\$MM'	#	#
Jun. 30, 2023	1,619,188	1,488,494	130,694	(2,425,032)	(0.01)	170.8	79,421	119,326
Mar. 31, 2023	1,427,933	1,252,467	175,466	(1,890,399)	(0.01)	143.0	72,976	111,207
Dec. 31, 2022	1,183,480	969,945	213,106	(2,049,938)	(0.01)	138.5	67,179	101,404
Sept. 30, 2022	1,467,995	1,162,164	305,831	(1,820,941)	(0.01)	137.3	64,020	87,303
Jun. 30, 2022	1,286,058	988,944	297,087	(1,871,151)	(0.01)	116.5	57,790	82,626
Mar. 31, 2022	796,623	682,239	114,633	(1,524,265)	(0.01)	69.8	48,767	66,566
Dec. 31, 2021	743,924	752,185	(8,261)	2,054,794	(0.01)	65.2	40,997	76,576

Sept. 30, 2021	861,326	471,690	389,636	(982,379)	(0.01)	48.7	25,182	nm
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<sup>(1)</sup> See “Definitions – IFRS, Additional GAAP and Non-GAAP Measures”;

<sup>(2)</sup> “nm” stands for “not measured”

## ANALYSIS OF FINANCIAL PERFORMANCE

### NET LOSS AND COMPREHENSIVE LOSS

**Net loss and comprehensive loss** for Q2 2023 was \$2,408K compared to a net loss and comprehensive loss of \$1,877K for Q2 2022. The increased loss of \$531K is attributed to increased cardholder fraud activity resulting in higher transaction monitoring and cardholder support costs, leading to an increase in cost of sales of \$273K. The Company also incurred \$117K of financing costs and \$104K foreign exchange loss related to the acquisition of QRails.

### REVENUE AND GROSS PROFIT

**Gross Dollar Value (“GDV”)** of \$170.8MM for Q2 2023 increased by \$54.3MM or 47% from \$116.5MM for the prior year quarter. The increase is a result of significant growth in the number of clients and associated active users added to the Today program over the preceding 12 months coupled with the complete removal of COVID-19 restrictions in the hospitality sector; the latter resulting in higher foot traffic which in turn yielded higher GDV per client and active user.

**Revenue** for Q2 2023 totaled \$1,619K, an increase of \$333K or 26% from \$1,286K for the prior year quarter. Of the Company’s three revenue streams, Transaction revenue was the main driver, increasing by \$490K, while Card revenue decreased by \$148K; Subscription revenue increased by \$11K, and Program management revenue was down \$21K.

**Transaction revenue** which consists of interchange resulting from point of sale transactions (“POS”), out of network ATM withdrawal fees, and electronic transfer fee’s, totaled \$1,464K for Q2 2023, an increase of \$490K or 50% from \$973K for the prior year quarter. The increase is due to higher GDV loaded on the Company’s *Today Financial* platform and the associated transaction growth as cardholders move funds off their mobile wallets. This growth resulted from the Company growing its active user count by 50%, going from 58K at the end Q2 2022 to 79K at the end of Q2 2023.

**Card issuance revenue** which consists of revenue from the purchase and shipping of *Today Financial* debit cards to the clients for use by their employees totaled \$103K for Q2 2023, a decrease of \$149K from \$251K for the prior year quarter. The Company changed the recognition card revenue over the remaining life of the customer contract, on a comparative basis, Card revenue increased 5% or \$12K resulting from the increase in average card selling price from \$7.48 to \$8.48 per card. The Company’s main vertical is hospitality which has a high annual staffing turnover rate; as cards are tied to individuals and therefore are not transferable, card sales to existing clients create recurring demand (cards for new employees and replacement cards for existing) which is a material component of overall card purchases.

**Subscription revenue** which consists of revenue charged to businesses for use of the *Today Financial* product to enable real-time payment of earned wages and gratuities. Starting in Q2 2023, the Company

introduced this new revenue stream to expand beyond interchange and cardholder fees, and increase its average revenue per user.

**Program Management revenue** which consists of licensing of the Company's technology to adjacent markets and customized program fee's, totaled \$52K for Q2 2023, a decrease of \$8K or 13% from \$60K for the prior year quarter. The decrease is a result of the Company transitioning away from legacy bespoke programs in favour of continued development and support of the core business of gratuity and wage payments.

**Gross Profit** for Q2 2023 totaled \$131K or 8% of revenue, is a decrease of \$166K or 54% from \$297K or 23% of revenue for the prior year quarter. The decrease in gross profit is due to increased spend on transaction monitoring cost associated with industry wide increase in card fraud pertaining to merchant processing transactions.

## OPERATING EXPENSES

**Total operating expenses** for Q2 2023 were \$2,218K, an increase of \$114K or 5% from \$2,104K in the prior year quarter. The main driver for the increase in professional fees for the QRails acquisition, offset by decrease in public company costs. Operating expenses of the company consist of:

**Salaries and employee benefits** were \$1,197K for Q2 2023 compared to \$943K for Q2 2022. The increase of \$254K is primarily a result of increased staffing, from 32 at the end of Q2 2022 to 39 at the end of Q2 2023. The Company added additional resources to sales, client success, engineering, and product development in the latter half of 2022 and Q2 2023 to manage volume growth, increase the number of new products and time to market, and to actively diversify its client base by adding dedicated salespeople to verticals outside hospitality. The Company also experienced an increase in salaries in some positions in the quarter, the full impact of which will be realized in subsequent quarters.

**Consulting fees** were \$95K in Q2 2023 compared to \$421K for the prior year quarter. The decrease of \$326K is due to a reduction in high cost contract labour in engineering, as the Company look to build the capability in-house. The Company reviews staffing requirements and reliance on contract labour quarterly, and adjusts based on labour market and projected workload requirements.

**Professional fees** were \$408K for Q2 2023 compared to \$207K for the prior year quarter. The increase of \$201K is a result of increased legal fees associated with the QRails acquisition and increased audit costs, partially offset by a reduction in recruitment costs.

**Stock based compensation** was \$43K for Q2 2023 compared to \$2K for the prior year quarter.

**Marketing and promotion expenses** were \$153K for Q2 2023 compared to \$103K for the prior year quarter. The increase of \$50K is due to increased spend on card holder communications (which is a function of a growing user count), partially offset by a reduction in marketing events and collateral.

**Office and general expenses** were \$161K for Q2 2023 compared to \$88K for the prior year quarter. The increase of \$73K is mainly a result of program setup for Earned Wage Access in the USA of \$67K.



**Public company and regulatory** expenses were \$90K for Q2 2023 compared to \$259K for the prior year quarter. The decrease of \$169K is entirely due a reduction in Investor Relation related spend pertaining to awareness and outreach activities.

**Depreciation and amortization expenses** were \$47K for Q2 2023 compared to \$49K for the prior year quarter, or largely flat year over year.

**Bank charges, interest and accretion** expenses were \$11K for Q2 2023 compared to \$9K for the prior year quarter. No significant change year over year

**Travel, meals, and entertainment** expenses were \$12K for Q2 2023 compared to \$22K for the prior year quarter, due to corporate reduction in discretionary spending

**Bad debt and expected credit loss (“ECL”)** expenses were \$2K for Q2 2023 compared to \$2K in the prior year quarter, and is largely flat year over year.

#### OTHER INCOME

**Other expense** for Q2 2023 was \$338K compared to \$64K for the prior year quarter. The increase of \$274K is related to \$117K worth of financing costs associated with the QRails acquisition, and \$104K of foreign exchange losses versus the previous year.

#### ASSETS

**Cash** as at June 30, 2023 was \$424K compared to \$2,687K at December 31, 2022. The decrease of \$2,263K is a result of the Company funding operating activities of QRails, offset by increased funding from its convertible debentures.

**Trade and other receivables** as at June 30, 2023 were \$1,742K compared to \$751K at December 31, 2022. The increase of \$991K is mainly due to a \$932K increase in fraud credits issued by the Company to cardholders in advance of the underlying card network providing reimbursement. The credits increased as a result of an industry wide increase in debit and credit card transaction related fraud activity in the Canadian market.

**Prepaid expenses** as at June 30, 2023 were \$363K compared to \$287K at December 31, 2022. The increase of \$76K is due to a \$100K prepayment made to a strategic partner for licencing of workforce management software offset partially by reduction to software subscriptions and insurance premium prepayments.

**Contract asset** as at June 30, 2023 was \$486K compared to \$247K at December 31, 2022. The increase of \$239K is due to the Company deferring card costs over the remaining life of its customer contracts. In Q2, \$148K of card costs were deferred to future periods, offset by \$71K of costs amortized in the current period.

**Notes receivable** as at June 30, 2023 was \$2,565K representing the total amount that funded the operating activities of QRails.

#### LIABILITIES

**Trade and other payables** as at June 30, 2023 were \$2,441K compared to \$1,288K at December 31, 2022. The increase of \$1,153K correlates with the increase in operating expenses and cost of sales expenses.

**Unearned revenue** as at June 30, 2023 was \$842K compared to \$464K at December 31, 2022. The increase of \$378K is attributed to the Company recognizing its Card revenue across the life of its customer contracts which can range from 1 to 3 years. In Q2 2023, card revenue of \$246K was deferred to future period, offset by \$71K of deferred revenue being recognized.

**Subscription receipts** as at June 30, 2023 of \$2,964k are proceeds received as part of the Company's non-brokered private placement of convertible debentures that has an initial closing date after the quarter end date.

## SHAREHOLDERS EQUITY

**Shareholders equity** as at June 30, 2023 is negative \$2,007K compared to \$2,187K at December 31, 2022. The decrease of \$4,194K is due to an increase in accumulated deficit associated with the current quarter's net loss and comprehensive loss.

## RESTRICTED CASH, RECEIVABLES AND CLIENT DEPOSITS

Acting as a paying agent, the Company had \$53.5MM in restricted funds on deposit (December 31, 2022 - \$51.3MM) and restricted receivables of \$1.1MM (December 31, 2022 - \$0.2MM) as at June 30, 2023, for fraud credits that the Company filed to the network on behalf of its cardholders. The Company also has corresponding liabilities for client and cardholder balances as at June 30, 2023 of \$56.0MM (December 31, 2022 - \$52.5MM). Restricted cash consists of cash balances held in individual client wallets which are on deposit in custodial accounts controlled by the company for the sole benefit of the client, and cardholder balances resulting from the transfer of funds by the client from their respective wallet(s) to a card which are on deposit in settlement accounts controlled and subject to restrictions imposed by the card program sponsoring bank.

## OFF BALANCE SHEET ARRANGEMENTS

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

## WORKING CAPITAL

**Working capital** of the Company as of June 30, 2023 was negative \$171K compared to \$972K at December 31, 2022. The decrease of \$1,143K is a result of a lower ending cash balance due mainly to funding YTD operational requirements for QRails and the Company.

## RISK FACTORS AND UNCERTAINTIES

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Please refer to the Company's audited annual consolidated financial statements for the year ended December 31, 2022.

## NEW ACCOUNTING PRONOUNCEMENTS

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Please refer to the Company's unaudited condensed consolidated interim financial statements for the period ended June 30, 2023, and the year ended December 31, 2022.

## DEFINITIONS – IFRS, ADDITIONAL GAAP AND NON-GAAP

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### IFRS MEASURES

#### **Cost of sales**

Cost of sales consists of expenses related to servicing the customers instant pay and mobile banking solutions. These expenses include interchange and related network fees, ATM (Automated Teller Machine) fees, card set-up / printing / shipping costs, and customer support expenses for resources directly associated with the cost of services.

#### **Gross profit and gross profit margin**

Gross profit is net revenue less cost of sales while gross profit margin is gross profit divided by net revenue.

### ADDITIONAL GAAP MEASURES

#### **Professional fees**

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

#### **Consulting fees**

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

#### **Public company and regulatory**

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

#### **Office and general in operating expenses**

Office and general expenses include software and other computer expenses, internal compliance expense, donations, dues and fees, equipment leases, insurance, facilities, telecom, and office supplies and maintenance expenses.

#### **Finance costs**

Finance costs consist of interest charged on our long-term debt facility, amortization of deferred financing costs and accretion expense. The deferred financing costs are amortized using the effective interest method over the term of the loan.

**Loss from operations**

Loss from operations exclude foreign exchange loss, income taxes, finance costs and change in fair value of derivative liability. We consider loss from operations to be representative of the activities that would normally be regarded as operating for the Company. We believe this measure provides relevant information that can be used to assess the performance of the Company and therefore, provides meaningful information to investors.

**KEY PERFORMANCE INDICATORS (non-GAAP and non-IFRS)****Gross dollar value (“GDV”)**

Gross dollar value loaded is the aggregate amount of all dollars loaded on to the Company’s platform by hospitality, personal care, food delivery, and other establishments, and is measured on a monthly, quarterly, and annual basis.

**Total Active Users**

The Company classifies Total Active Users as those wallet holders who have had at least one transaction in the past 6 months during the previous six months from the reporting date.