

# XTM Inc.

CSE: PAID, OTCQB: XTMIF, FSE: 7XT  
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## Management's Discussion and Analysis

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**For the periods ended June 30, 2024 and 2023**

*(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 September 30<sup>th</sup>, 2024, reviews the financial condition and results of operations of XTM Inc. (the "Company" or "XTM") for the period ended June 30, 2024 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, 2023, and b) unaudited consolidated condensed interim financial statements for the three months ended June 30, 2023 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, 2024. Comparative amounts in the unaudited condensed consolidated interim financial statements and accompanying notes thereto are for the period ended June 30, 2024, and year-ended December 31, 2023.

## 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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Founded in the cloud-banking space to further support businesses to inspire their workforce in the hospitality, personal care and services staffing industries, XTM provides on-demand pay for many large brands including Earls, Maple Leaf Sports & Entertainment, Cactus Club, Marriott Hotels and Live Nation. QRails is a fully owned subsidiary of XTM. A cloud-based, API-driven issuer-processor, QRails enables payroll providers, financial institutions and other global fintech companies to keep up with the on-demand economy by delivering innovative digital payment solutions to their employees. QRails helps companies modernize and leverage payroll as a differentiator in attracting and retaining talent all at low to no cost for the employee and employer. QRails' flagship solution, AnyDay™, is the first provider to own their full tech stack that powers their Earned Wage Access solution. Founded in 2016, QRails, Inc., together with its U.K. subsidiary, QRails Limited is SAP-certified, QRails also has earned several industry certifications under PCI DSS, and SOC. For more information, please visit [www.QRails.com](http://www.QRails.com).

Moving forward, the Company's growing focus is on delivering on a global demand for its fully certified Earned Wage Access ("EWA") solution through its *AnyDay™* product, a mobile and enterprise software solution specifically designed to provide earned wages to employees, on demand, via a mobile wallet, accessible via the internet or by a free mobile app paired with a Chip & PIN EMV Mastercard debit card. The solution includes free banking features and is used by thousands of employees in 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 with offices in Miami, Toronto, Denver and London.

## **RECENT EVENTS**

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The following notable events occurred after the period covered by the Company's June 30, 2024 unaudited consolidated financial statements and MD&A:

- In February 2024, the Company began funding EWA advances from its lending facility. The lending facility totals up to USD \$100MM with access to \$20MM for the initial tranche.
- On February 27, 2024, the Company announced the official commercial launch of AnyDay™, its SAP-certified and fully-compliant EWA solution through its channel partner Alight, for a Fortune 15 Employer, marking XTM's largest EWA program to date.
- On February 6, 2024, the Company announced that it completed non-brokered private placement offering for convertible debentures, previously announced and revised on December 18, 2023, for aggregate gross proceeds of US\$11,028,468 oversubscribed from the original maximum offering size of US\$5,000,000. Five million of the \$11,028,468 was rescinded due to an investor's finances being intercepted in an injunction; however in March 2024 XTM obtained a \$20,000,000 lending facility from which funds can be used for operations and the deficit of prepaid funds fully reconciled on demand, in the event a customer demands repayment of the prepaid funds. Note that while the deficit of prepaid funds has not been cured, the funds available under the credit facility can be used for the settlement of any demands for prepaid funds in the event of such demand and there is no risk to the return of prepaid funds.
- On December 18, 2023, the company announced that the terms of its non-brokered private placement offering for aggregate gross proceeds of up to US\$5MM (the "Offering") of units originally announced on December 13, 2023, have been revised from an issuance of units of convertible debentures to the issuance of convertible debentures in the principal amount of US\$1,000 at a rate of 12% per annum from the date of issuance of the Company (each a "Debenture") and is due 24 months after the date of issuance. Each Debenture shall be convertible at the option of the holder thereof into units ("Units") of the Company at a price of US\$0.11 per Unit. Each Unit shall entitle the holder thereof to receive one common share in the capital of the Company ("Common Shares"), for no additional compensation, and one warrant to purchase a Common Share upon payment of US\$0.11 to the Company for a period of 24 months from the Initial Closing Date. The Debentures will be a secured obligation of the Company ranking junior in right of payment to all existing secured credit agreements and financing arrangements of the Company, and senior in right of payment to all current and future unsecured obligations of the Corporation.
- In October 2023, the Company issued shares to support the Company's working capital requirements until the close of the Convertible Debt Financing, issuing a total of 4,425,356 common shares for proceeds of \$592,775 at an average price of \$0.134 per share.
- In August 2023, the Company promoted Cary Strange from Chief Revenue Officer to President, aligning with the proposed launch of QRails revenue with a Fortune 50 customer in December 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\$3.5MM, consisting of US\$100K in cash with the remaining US\$3.4MM to be paid through the issuance of common shares.

## HIGHLIGHTS FOR Q2 2024

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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 \$2.2MM in Q2 2024 was the highest on record for the Company.

- Gross dollar value (“GDV”) loaded on the Company’s platform was \$202.6MM for the quarter. This was the highest quarter in the Company’s brief history, surpassing \$178.7MM in Q4 2023 and an increase of 22% from \$165.5MM in Q2 2023;
- Current Active users at the end of June 2024 (defined as wallet holders that completed a minimum of one transaction in a current month) on the Company’s Today platform totalled 88K, an increase of 9K or 11% from 79K for Q2 2023, and an increase of 8K or 10% from Q1 2024. Total Active Users (defined as a Today wallet holder with at least one transaction in the past 6 months) increased to 121K at the end of Q2 2024 from 119K at the end of Q2 2023;
- Revenue was \$2.2MM for the quarter. Q2 2024 was the strongest quarter for revenue since the Company’s inception, increasing \$532K or 33% compared to Q2 2023, and \$339K or 19% compared to Q1 2024;
- Gross Profit was \$123K or 6% of revenue for the quarter; this compares to \$130K or 8% of revenue for Q2 2023;
- Operating expenses were \$5,250K for the quarter. Q2 2024 saw an increase of 105% or \$114K compared to \$2,556K for Q2 2023 with the main driver being the increase in salaries and employee benefits, office and general, and depreciation and amortization due to the QRails acquisition.
- Net loss was \$5,128K for the quarter. Current quarter net loss increased compared to a net loss of \$2,382K for Q2 2023 mainly due to much higher salaries and employee benefits due to the personnel integration because of the QRails acquisition.
- Working capital of the Company was negative \$17.7MM at June 30, 2024, an decrease of \$2.0MM compared to working capital of \$15.7MM at December 31, 2023.

## 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's	#	#
June 30, 2024	2,151,467	2,028,960	122,507	(5,127,553)	(0.02)	202.6	88,114	121,469
March 31, 2024	1,812,284	1,855,290	(43,006)	(4,778,703)	(0.03)	173.5	80,086	118,615
December 31, 2023	1,832,924	2,016,716	(183,792)	(7,153,024)	(0.04)	178.7	80,410	132,037
September 30, 2023	1,895,021	1,798,098	96,923	(4,657,465)	(0.03)	178.2	81,583	125,127
June 30, 2023	1,619,188	1,488,494	130,694	(2,382,035)	(0.01)	165.5	79,421	119,326
March 31, 2023	1,427,933	1,252,467	175,466	(1,890,399)	(0.01)	136.0	72,976	111,207
December 31, 2022	1,183,480	969,945	213,106	(2,049,938)	(0.01)	138.5	67,179	101,404
September 30, 2022	1,467,995	1,162,164	305,831	(1,820,941)	(0.01)	137.3	64,020	87,303

## ANALYSIS OF FINANCIAL PERFORMANCE

### NET LOSS AND COMPREHENSIVE LOSS

**Net loss and comprehensive loss** for Q2 2024 was \$5.2MM compared to a net loss of \$2.4MM for Q2 2023. The increased loss of \$2.8MM is attributed to increased operating expenses, mainly in salaries and employee benefits, interest on convertible debentures, and the inclusion of QRails expenses into operations for the quarter compared to the last year quarter.

### 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 2024 totaled \$2,151K, an increase of \$532K or 33% from \$1,286K for the prior year quarter. Of the Company's three revenue streams, Transaction revenue was the main driver, increasing by \$429K, while Card revenue increased by \$111K, and Program management revenue was down \$8K.

**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 \$1,893K for Q2 2024, an increase of \$427K or 29% from \$974K 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 2023 to 79K at the end of Q2 2024.

**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 \$252K 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 turn over 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.

**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, a decrease of \$166K or 54% from \$297K or 23% of revenue in 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 2024 were \$5,250K, an increase of \$2,694K or 105% from \$2,556K in the prior year quarter. The main drivers are the increase in salaries and employee benefits, depreciation and amortization, and office and general, due to the increase in personnel due to the QRails acquisition, as well as bearing QRails's operating expenses.

**Salaries and employee benefits** were \$2,729K in Q2 2024 compared to \$1,197K for the prior year quarter. The increase of \$1,532K is primarily a result of increased staffing because of the QRails acquisition. The QRails product is compliant with Payment Card Industry Data Security Standards and is Type 1 SOC 1 compliant, resulting in additional staffing requirements to meet the rigorous standards. The Company views this team as necessary to administer the EWA AnyDay™ platform at scale throughout Canada, the US and Europe.

**Consulting fees** were \$125K in Q2 2024 compared to \$96K for the prior year quarter. The increase of \$29k is due to the increased usage of consulting and advisory services, as well as a slight increase in sub-contractors' expense. The Company reviews staffing requirements and reliance on contract labour quarterly and adjusts based on labour market and projected workload requirements.



**Professional fees** were \$314K for Q2 2024 compared to \$409K for the prior year quarter. The decrease of \$94K is mainly due to a decrease of legal fees, as the legal fees from the prior year quarter pertained to the issuance of convertible debentures as well as the acquisition of QRails.

**Stock based compensation** was 338K for Q2 2024 compared to \$43K for the prior year quarter. The increase of \$295K is due to the much higher amount and value of outstanding options and restricted share units, due to the integration of employees from the QRails acquisition.

**Marketing and promotion** was \$76K for Q2 2024 compared to \$153K for the prior year quarter. The decrease of \$77K is due to increased spend on card holder communications (which is a function of a growing user count), offset by a reduction in marketing events and collateral.

**Office and General** was \$375k for Q2 2024 compared to \$161K for the prior year quarter. The increase of \$214K is mainly due to the inheritance of additional expenses from the QRails acquisition.

**Public company and regulatory** was \$48k for Q2 2024 compared to \$90K for the prior year quarter. The decrease of \$42K is due to a decrease in investor relations spend pertaining to awareness and outreach activities.

**Depreciation and amortization** was \$522K for Q2 2024 compared to \$47K for the prior year quarter. The increase of \$475K is because of the inheritance of additional fixed and intangible assets as a result of the QRails acquisition and the addition of the right-of-use asset associated with the new Colorado office lease.

**Bank charges, interest and accretion** was \$134K for Q2 2024 compared to \$11K for the prior year quarter. The increase of \$123K is because of the inheritance of additional expenses as a result of the QRails acquisition, resulting from the EWA program.

**Travel, meals, and entertainment** was \$5K for Q2 2024 compared to \$12K for the prior year quarter, due to corporate reduction in discretionary spending.

**Bad debt and expected credit loss ("ECL")** was \$5K for Q2 2024 compared to \$2K in the prior year quarter and is largely flat year over year.

## OTHER INCOME

**Other expense** for Q2 2024 was \$283K compared to \$338K for the prior year quarter. The decrease of \$55K is related to the gain on the extinguishment of convertible debentures, as well as reduced fraud losses in the trust accounts.

## ASSETS

**Cash** as at June 30, 2024 was \$286K compared to \$94K at December 31, 2023. The increase of \$192K is a result of the financing received from Two Shores, offset by the increased spending on operating expenses.

**Trade and other receivables** as at June 30, 2024 were \$605K compared to \$503K at December 31, 2023. The increase of \$102K is mainly due to an increase in temporary balances from undrawn revenue at period-end.

**Prepaid expenses** as at June 30, 2024 were \$745K compared to \$454K at December 31, 2023. The increase of \$291K is due to \$145K in additional retainers paid for consulting services, as well as the inheritance of QRails expenses due to the acquisition.

**Contract asset** as at June 30, 2024 was \$448K compared to \$384K at December 31, 2023. The increase of \$64K is due to the Company deferring card costs over the remaining life of its customer contracts. In Q2, \$294K of card costs were deferred to future periods, offset by \$154K of costs amortized in the current period.

## LIABILITIES

**Trade and other payables** as at June 30, 2024 were \$9,153K compared to \$7,500K at December 31, 2023. The increase of \$1,653K correlates with the increase in operating expenses and the Company having payment plans with key vendors, to reduce the need for short-term cash outlay.

**Unearned revenue** as at June 30, 2024 was \$1,306K compared to \$1,104K at December 31, 2023. 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 2024, card revenue of \$74K was deferred to future period, offset by \$47K of deferred revenue being recognized.

## SHAREHOLDERS EQUITY

**Shareholders equity** as at June 30, 2024 is negative \$17,067K compared to negative \$7,330K at December 31, 2023. The decrease of \$9,737K is due to an increase in accumulated deficit associated with the current quarters net loss and comprehensive loss.

## RESTRICTED CASH, RECEIVABLES AND CLIENT DEPOSITS

Acting as a paying agent, the Company had \$54.5MM in restricted funds on deposit (December 31, 2023 - \$50.0MM) and restricted receivables of \$3.1MM (December 31, 2023 - \$0.7MM) 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, 2024 of \$62.9MM (December 31, 2023 - \$57.1MM). 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 at June 30, 2024 was negative \$17,684K compared to negative \$15,716K at December 31, 2023. The decrease of \$1,968K 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, 2023.

## 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, 2024, and the year ended December 31, 2023.

## 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.

### **Current Active Users**

The Company classifies Current Active Users as those wallet holders who have had at least one transaction in their account in the most current reported month of the reporting period.

**Total Active Users**

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