

XTM Inc.

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

Management's Discussion and Analysis

For the periods ended September 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

This Management's Discussion and Analysis ("MD&A") prepared as of November 29th, 2024, reviews the financial condition and results of operations of XTM Inc. (the "Company" or "XTM") for the period ended September 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 September 30, 2024 together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. These statements can be found under the Company's profile on SEDAR at www.sedar.com.

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

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

ACCOUNTING PERIODS

The following Management's Discussion & Analysis ("MD&A") is based on information in the unaudited condensed consolidated interim financial statements and accompanying notes thereto for the period ended September 30, 2024. Comparative amounts in the unaudited condensed consolidated interim financial statements and accompanying notes thereto are for the period ended September 30, 2023, 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 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 due to 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

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, which is SAP-certified, QRails also has earned several industry certifications under PCI DSS, and SOC. For more information, please visit 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™* platform, 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 new referral agreement with KOHO Financial Inc. (“KOHO”) described below will also enable the Company to be more profitable through new customer acquisition revenue streams and the elimination of high banking, network, transactional and customer service costs,

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

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

- On September 30, 2024, the Company filed its annual audited financial statements for the year-ended December 31, 2023, interim financial statements for the three months ended March 31, 2024, interim financial statements for the six months ended June 30, 2024, together with the management's discussion and analysis and required certifications in respect of each period (collectively, the "Filings").
- On October 3, 2024, the Company announced the appointment of Mr. Jakob Ripshtein as the Company's Chief Financial Officer ("CFO"), effective October 3, 2024. Mr. Ripshtein brings over 30 years of experience leading finance, corporate strategy, marketing, and sales and has a deep understanding of diversified industries. As President of Diageo Canada followed by CFO of Diageo North America, Jakob was charged with providing the financial and strategic leadership to deliver the Diageo North America Financial performance NSV and trading profit commitments to the company, directly contributing to and shaping the business strategy, as well as managing a complex governance and compliance agenda.
- On October 7, 2024, the Company's stock resumed trading through the facilities of the Canadian Securities Exchange (CSE: PAID). as a re the above Filings, the Ontario Securities Commission (the "OSC") issued an order revoking cease trade order issued on July 3, 2024 against the Company for failing to file.
- On October 16, 2024, the Company announced the launch and roll-out of a Global Workers Payout Program called PayNow. The new program empowers temporary workers to, with a simple mobile app download and know your client application, open a secure digital bank account to receive earnings, load cash conveniently at 50,000 locations across the United States, make point of sale transactions with a paired debit card and access employee benefits including remittance (initially to Mexico) and sick day pay.
- On October 24, 2024, the Company announced a private placement offering of convertible debentures of the Company ("Debentures") at a price of C\$1,100 per Debenture for aggregate gross proceeds of up to C\$7,000,000 (the "Offering"). The Debentures will mature 24 months from the date of issue (the "Maturity Date"), carry an interest rate of 12% per year and will be convertible to units ("Debenture Units") at a conversion price of \$0.11 per Unit. Each Debenture Unit shall consist of one common share of the Company and one additional common share purchase warrant exercisable until the Maturity Date for an additional common share a price of C\$0.11 (each a "Warrant"). In the event the 5-day volume weighted average price of the common shares of the Company is C\$0.50 or more on the Canadian Securities Exchange, the Company may accelerate the expiry date of the Warrants to the date that is 30 days from the date of an announcement of such acceleration. The Debenture will be a secured obligation of the Company ranking pari-passu to the existing secured debenture holders of the Company and shall be senior in right of payment to all future unsecured obligations of the Corporation.
- On November 12, 2024, the Company signed an exclusive referral agreement with KOHO Financial Inc. ("KOHO") to offer enhanced financial services to its more than 100,000 *AnyDay™* platform member base. As part of the commercial referral agreement there are multiple closing conditions, including XTM agreeing to close a financing of \$5 million CAD within 30 days of the effective date, as well as audit rights. Other notable terms include that the Company will generate revenue via customer acquisition fees and a time-bound revenue share for new users that KOHO acquires. This will enable the Company to

eliminate banking, network, transactional and customer service costs, thereby offsetting a significant amount of cost of goods sold that, to date, have prevented the company from realizing profitability on its Canadian business.

HIGHLIGHTS FOR Q3 2024

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 \$2.4MM in Q3 2024 was the highest on record for the Company.

- Gross dollar value (“GDV”) loaded on the Company’s *AnyDay™* platform increased in Q3 2024 by 21% to \$215.6MM from \$178.2MM in Q3 2023. This was the highest quarter for the Company to date, surpassing \$202.6MM in Q2 2024.
- Current Active Users on XTM’s *AnyDay™* platform increased 9% to 88,956 in Q3 2024 over the prior year quarter.
- Revenue was \$2.4MM for the quarter. Q3 2024 was the strongest quarter for revenue since the Company’s inception, increasing \$519K or 27% compared to Q3 2023, and \$263K or 12% compared to Q2 2024.
- Gross Profit was \$161K or 7% of revenue for the quarter; this compares to \$97K or 5% of revenue for Q3 2023.
- Operating expenses were \$4,325K for the quarter. Q3 2024 saw a decrease of \$748K compared to \$5,073K for Q3 2023 with the main driver being the decrease in professional fees due to the completion of the QRails acquisition and the decrease in other expenses due to a reduction in fraud losses.
- Net loss was \$4,164K for the quarter. Current quarter net loss increased compared to a net loss of \$4,977K for the prior year quarter, mainly due to lower operating expenses and higher revenue.
- Working capital of the Company was a deficit \$21.5MM at September 30, 2024, a decrease of \$5.8MM compared to a working capital deficit 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 KPIs the Company uses to assess performance, for each of the eight most recently completed quarters:

Quarter Ended	Financial Results Statement of Loss and Comprehensive Loss					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)
	\$	\$	\$	\$	\$	\$MMs	#	#
September 30, 2024	2,414,310	2,252,908	161,402	(4,163,506)	(0.02)	215.6	88,956	127,791
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	115,027
September 30, 2023	1,895,021	1,798,325	96,696	(4,976,698)	(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 Q3 2024 was \$4.2MM compared to a net loss of \$5.2MM in Q2 2024 and \$4.8MM for Q3 2023. Increased revenue was offset equally by increased operating expenses, such as salaries and employee benefits.

REVENUE AND GROSS PROFIT

Gross Dollar Value ("GDV") of \$215.6MM for Q3 2024 increased by \$37.4MM or 21% from \$178.2MM 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 *AnyDay™* platform over the preceding 12 months.

Revenue for Q3 2024 totaled \$2,414K, an increase of \$519K or 27% from \$1,895K for the prior year quarter. Of the Company's three revenue streams, transaction revenue was the main driver, increasing by \$454K from the prior year quarter, while card revenue increased by \$76K, and program management revenue was down \$10K. The revenue streams are further described as follows:

Transaction revenue which consists of interchange resulting from point-of-sale transactions ("POS"), out of network ATM withdrawal fees, and electronic transfer fees, totaled \$2,057K for Q3 2024, an increase of \$454K or 28% from \$1,603K for the prior year quarter. The increase is due to higher GDV loaded on the Company's *AnyDay™* 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 9%, going from 82K at the end Q3 2023 to 89K at the end of Q3 2024.

Card issuance revenue which consists of revenue from the purchase and shipping of *AnyDay™* debit cards to the clients for use by their employees totaled \$236K for Q3 2024, an increase of \$76K from \$160K for the prior year quarter. The Company made substantially more card sales in Q3 2024 due to back orders in Q2 2024. 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.

Program Management revenue which consists of licensing of the Company's technology to adjacent markets, subscription fees and customized program fees, totaled \$121K for Q3 2024, a decrease of \$10K or 24% from \$131K 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 Q3 2024 totaled \$161K or 7% of revenue, an increase of \$64K or 67% from \$97K or 5% of revenue in the prior year quarter. The increase in gross profit is due to increased share of revenues generated from the EWA program, a higher margin program.

OPERATING EXPENSES

Total operating expenses for Q3 2024 were \$4,325K, a decrease of \$748K or 15% from \$5,073K in the prior year quarter. The main drivers are the decreases in professional fees due to the completion of the QRails acquisition, and the decrease in other expenses.

Salaries and employee benefits were \$2,410K in Q3 2024 compared to \$1,913K for the prior year quarter. The increase of \$497K is primarily a result of increased staffing because of the QRails addition for the full quarter.

Professional fees were \$569K for Q3 2024 compared to \$792K for the prior year quarter. The decrease of \$223K 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.

Depreciation and amortization was \$509K for Q3 2024 compared to \$388K for the prior year quarter. The increase of \$121K is because of the addition of the right-of-use asset associated with the new Colorado office lease.

Office and General was \$375K for Q3 2024 compared to \$257K for the prior year quarter. The increase of \$118K is mainly due to the new insurance policy in Q3 2024. There was also an increase in software subscriptions due to the QRails acquisition and higher volume of transactions.

Share-based compensation was \$287K for Q3 2024 compared to \$412K for the prior year quarter. The decrease of \$125K is due to a one-time share-based payment issued to consultants in the prior year quarter but were unable to issue any in Q3 2024 because of the cease trade order, which was subsequently revoked on October 2, 2024.

Interest on debentures was \$260K for Q3 2024 compared to nil for the prior year quarter. The increase of \$260K was because of interest accumulated on the newly issued convertible debentures in Q1 2024.

Accretion on debentures was \$15K for Q3 2024 compared to nil for the prior year quarter. The increase of \$15K was because of accretion accumulated on the newly issued convertible debentures in Q1 2024.

Bank charges and interest was \$167K for Q3 2024 compared to \$16K for the prior year quarter. The increase of \$151K is due to the interest in connection with the EWA program line of credit.

Marketing and promotion was \$56K for Q3 2024 compared to \$98K for the prior year quarter. The decrease of \$42K is due to decreased spend on card holder communications as well as a reduction in marketing events and collateral.

Consulting was \$47K in Q3 2024 compared to \$66K for the prior year quarter. The decrease is due to lower consultant headcount.

Public company and regulatory was \$47K for Q3 2024 compared to \$95K for the prior year quarter. The decrease of \$48K is due to a decrease in investor relations spend pertaining to awareness and outreach activities.

Travel, meals, and entertainment was \$3K for Q3 2024 compared to \$11K for the prior year quarter, due to corporate reduction in discretionary spending.

Bad debt and expected credit loss was a recovery of \$0.9K for Q3 2024 compared to \$15K in the prior year quarter and is largely flat year over year.

Other (income) expenses for Q3 2024 was income of \$420K compared to expenses of \$1,010K for the prior year quarter. The change of \$1,430K is due to greatly reduced fraud losses in the trust accounts and foreign exchange gains in Q3 2024.

ASSETS

Cash as at September 30, 2024 was \$26K compared to \$94K at December 31, 2023. The decrease of \$68K is due to the increased spending on operating expenses.

Trade and other receivables as at September 30, 2024 were \$462K compared to \$503K at December 31, 2023. The decrease of \$41K is mainly due to an decrease in temporary balances from undrawn revenue at period-end as well as collections of outstanding accounts.

Prepaid expenses as at September 30, 2024 were \$616K compared to \$454K at December 31, 2023. The increase of \$162K is due to \$145K in additional retainers paid for consulting services.

Inventory as at September 30, 2024 was \$412K compared to \$417K at December 31, 2023. Cards remained relatively constant due to retention of minimums at QRails for EWA programs.

Contract assets as at September 30, 2024 were \$463K compared to \$384K at December 31, 2023. The increase of \$79K is due to the Company deferring card costs over the remaining life of its customer contracts.

LIABILITIES

Trade and other payables as at September 30, 2024 were \$10,309K compared to \$7,500K at December 31, 2023. The increase of \$2,809K 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.

Due to related party as at September 30, 2024 was \$281K compared to \$2,259K at December 31, 2023, a decrease of \$1,978K. The decrease is primarily due to the conversion to convertible debentures in Q1 2024.

Loan payable as at September 30, 2024 was \$3,793K compared to nil at December 31, 2023. The new EWA facility launched in March 2024 is the primary reason for this balance.

Unearned revenue as at September 30, 2024 was \$1,291K compared to \$1,104K at December 31, 2023. The increase of \$187K 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 Q3 2024, card revenue of \$88K was deferred to future period, offset by \$73K of deferred revenue being recognized.

Convertible debentures as at September 30, 2024 was \$8,270K compared to \$1,483K at December 31, 2023. The increase of \$6,787K was due to new tranches issued in Q1 2024 as further discussed in Note 14 of the financial statements.

SHAREHOLDERS EQUITY

Shareholders equity as at September 30, 2024 is negative \$21,350K compared to negative \$7,330K at December 31, 2023. The decrease of \$14,020K 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 \$58.7MM in restricted funds on deposit (December 31, 2023 - \$50.0MM) and restricted receivables of \$3.9MM (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 September 30, 2024 of \$70.2MM (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 September 30, 2024 was negative \$21,504K compared to negative \$15,716K at December 31, 2023. The decrease of \$5,788K 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

Please refer to the Company's audited annual consolidated financial statements for the year ended December 31, 2023.

NEW ACCOUNTING PRONOUNCEMENTS

Please refer to the Company's unaudited condensed consolidated interim financial statements for the period ended September 30, 2024, and the year ended December 31, 2023.

DEFINITIONS – IFRS, ADDITIONAL GAAP AND NON-GAAP

IFRS MEASURES

Cost of sales

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

Gross profit and gross profit margin

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

ADDITIONAL GAAP MEASURES

Professional fees

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