

**XS FINANCIAL INC.  
(FORMERLY XTRACTION SERVICES HOLDINGS CORP.)**

**CSE FORM 2A**

**LISTING STATEMENT**

**FISCAL YEAR ENDED DECEMBER 31, 2019**

## CAUTIONARY NOTE ON U.S. CANNABIS INVOLVEMENT

**XS Financial Inc. (formerly Xtraction Services Holdings Corp.) (“XS”, the “Company” or the “Issuer”) indirectly derives a significant portion of its revenues from the cannabis industry in certain states of the United States where industry is illegal under United States federal law. XS may be considered to have ancillary involvement in the cannabis industry by virtue of entering into agreements with producers of cannabis and industrial hemp where local state laws permit such activities. Currently, XS is not directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the recreational cannabis marketplace in either Canada or the United States, nor is XS directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the medical cannabis marketplace in Canada or the United States. See Section 4 – *Narrative Description of the Business* hereof.**

**The cultivation, sale and use of cannabis is illegal under federal law pursuant to the U.S. Controlled Substance Act of 1970 (the “CSA”). Under the CSA, the policies and regulations of the United States federal government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.**

**On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys, which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memo rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law. If the Department of Justice pursues prosecutions, then XS could face: (i) the arrest of its employees, directors, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis; (ii) barring employees, directors, officers, managers and investors who are not U.S. citizens from entry into the United States for life; or (iii) suspension of its U.S. business.**

**There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions.**

**Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, XS’ business, results of operations, financial condition and prospects would be materially adversely affected.**

**Despite the current state of the federal law and the CSA, well over half of the states of the United States have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (“THC”), while other states have legalized and regulated the sale and use of medical cannabis with strict limits on the levels of THC. However, there is no guarantee that**

state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local government authorities will not limit the applicability of state laws within their respective jurisdictions.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memo discussed above, on February 8, 2018 the Canadian Securities Administrators published Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* (“Staff Notice 51-352”) setting out the Canadian Securities Administrator’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis- related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers, such as XS, that provide ancillary services to third parties involved in the U.S. cannabis industry.

Since 2014, the United States Congress has passed appropriations bills which included provisions to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law (currently the “Leahy Amendment”, but also referred to as the Rohrabacher-Farr Amendment). There can be no assurances that the Leahy Amendment will be included in future appropriations bills.

Despite the current state of the federal law and the U.S. Controlled Substances Act of 1970, fourteen states and the District of Columbia have legalized adult use of cannabis for non-medical purposes.

In addition, over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis, while other states have legalized and regulate the sale and use of medical cannabis with strict limits on the levels of THC.

XS' objective is to capitalize on the opportunities presented as a result of the changing regulatory environment governing the cannabis industry in the United States and Canada. Accordingly, there are a number of significant risks associated with the business of XS. Unless and until the United States Congress amends the U.S. Controlled Substances Act of 1970 with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, and the business of XS may be deemed to be producing, cultivating, extracting or dispensing cannabis in violation of federal law in the United States.

For these reasons, XS’ operations in the United States cannabis market may subject XS to heightened scrutiny by regulators, stock exchanges, clearing agencies and other Canadian and United States authorities. There are a number of risks associated with the business of XS. See Risk Factors. In accordance with Staff Notice 51-352, please see the table of concordance under Section 3 - General Development of the Business – Industry Background and Trends in this Listing Statement that is intended to assist readers in identifying those parts of this Listing Statement that address the disclosure expectations outlined in Staff Notice 51-352.

#### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This Listing Statement includes “forward-looking information” and “forward-looking statements” within the meaning of Canadian securities laws and United States securities laws. All information, other than statements of historical facts, included in this Listing Statement that address activities, events or

developments that the Issuer expects or anticipates will or may occur in the future is forward-looking information. Forward-looking information is often identified by the words “may”, “would”, “could”, “should”, “will”, “intend”, “plan”, “anticipate”, “believe”, “estimate”, “expect” or similar expressions and includes, among others, statements relating to the business and future activities of, and developments related to, the Issuer, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Issuer’s business, operations and plans, including new revenue streams, the expansion into additional United States and international markets, any potential future legalization of adult-use and/or medical marijuana under U.S. federal law; expectations of market size and growth in the United States and the states in which the Issuer operates; expectations for other economic, business, regulatory and/or competitive factors related to the Issuer or the cannabis industry generally; and other events or conditions that may occur in the future.

Shareholders are cautioned that forward-looking information and statements are not based on historical facts but instead are based on reasonable assumptions and estimates of management of the Issuer at the time they were provided or made and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Issuer, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information and statements. Such factors include, among others, credit risks; risks relating to a concentration of leases and loans to small and mid-sized companies; risks relating to a concentration of leases and loans within a particular industry or region; risks relating to inadequate provision for credit losses; insufficient collateral securing a loan or lease; reliance on one key supplier; risks related to reliance on key officers and employees; customer concentration risk; risks relating to a change in extraction technologies; risks relating to voting control; financing risk; risks relating to U.S. regulatory landscape and enforcement related to cannabis, including political risks; risks relating to heightened scrutiny by regulatory authorities; public opinion and perception of the cannabis industry; limited operating history of XS; competition risk; risk of litigation; risks related to proprietary intellectual property and potential infringement by third parties; risks relating to anti-money laundering laws and regulation; other governmental and environmental regulation; risks related to contracts with third party service providers; risks related to the enforceability of contracts; reliance on the expertise and judgment of senior management of the Issuer; risks related to co-investment with parties with different interests to the Issuer; risks related to proprietary intellectual property and potential infringement by third parties; risks relating to financing activities including leverage; risks relating to the management of growth; increasing competition in the industry; risks relating to energy costs; reliance on key inputs, suppliers and skilled labour; ability and constraints on marketing products; fraudulent activity by employees, contractors and consultants; tax and insurance related risks; risks related to the economy generally; risk of litigation; conflicts of interest; risks relating to certain remedies being limited and the difficulty of enforcement of judgments and effect service outside of Canada; risks related to future acquisitions or dispositions; sales by existing shareholders; the limited market for securities of the Issuer; limited research and data relating to cannabis; as well as those risk factors discussed in Section 17 of this Listing Statement below. Although the Issuer has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such forward-looking information and statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such information and statements. Accordingly, readers should not place undue reliance on forward-looking information and statements. Forward-looking information and statements are provided and made as of the date of this Listing Statement and the Issuer does not undertake any obligation to revise or update any forward-looking information or statements other than as required by applicable law.

## **MARKET AND INDUSTRY DATA**

This Listing Statement includes market and industry data that has been obtained from third party sources, including industry publications. XS believes that the industry data is accurate and that its estimates and assumptions are reasonable, but there is no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there is no assurance as to the accuracy or completeness of included information. Although the data is believed to be reliable, XS has not independently verified any of the data from third-party sources referred to in this Listing Statement or ascertained the underlying economic assumptions relied upon by such sources.

### **CURRENCY**

In this Listing Statement, references to “\$” or “dollars” are to the lawful currency of the United States, unless otherwise stated.

### **DATE OF INFORMATION**

Except as otherwise indicated in this Listing Statement, all information disclosed in this Listing Statement is as of December 31, 2019.

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## 1. GLOSSARY OF TERMS

Unless otherwise indicated, the following terms used in this Listing Statement and the Schedules hereto shall have the meanings ascribed to them as set forth below:

“**1933 Act**” means the *United States Securities Act of 1933*.

“**2014 Cole Memo**” means the Department of Justice issued memorandum on February 14, 2014.

“**BCBCA**” means the *Business Corporations Act* (British Columbia), as amended.

“**Board**” means the board of directors of the Issuer.

“**CBD**” means cannabidiol.

“**CBP**” means United States Customs and Border Protection.

“**Code**” means Section 422 of the United States Internal Revenue Code of 1986.

“**Cole Memo**” means the Memorandum by former Deputy Attorney General James Michael Cole issued on August 29, 2013, under the Obama administration.

“**CSA**” means the United States *Controlled Substance Act* of 1970.

“**CSE**” means the Canadian Securities Exchange.

“**DOJ**” means the United States Department of Justice.

“**FinCEN Memorandum**” means the United States Department of the Treasury memorandum issued on February 14, 2014.

“**NI 52-110**” means National Instrument 52-110 *Audit Committees*.

“**NI 58-101**” means National Instrument 58-101 *Disclosure of Corporate Governance*.

“**NP 46-201**” means National Policy 46-201 *Escrow for Initial Public Offerings*.

“**SEC**” means the Securities Exchange Commission.

“**Staff Notice 51-352**” means Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* published on February 8, 2018.

“**THC**” means tetrahydrocannabinol.

“**USAM**” means the United States Attorney’s Manual.

“**USDA**” means the United States Department of Agriculture.

“**USTPO**” means the United States Patent and Trademark Office.

“**XS**” or the “**Issuer**” means XS Financial Inc. (formerly Xtraction Services Holdings Corp.), a corporation organized under the laws of the Province of British Columbia.

## 2. CORPORATE STRUCTURE

### 2.1 *Corporate Name and Head and Registered Office*

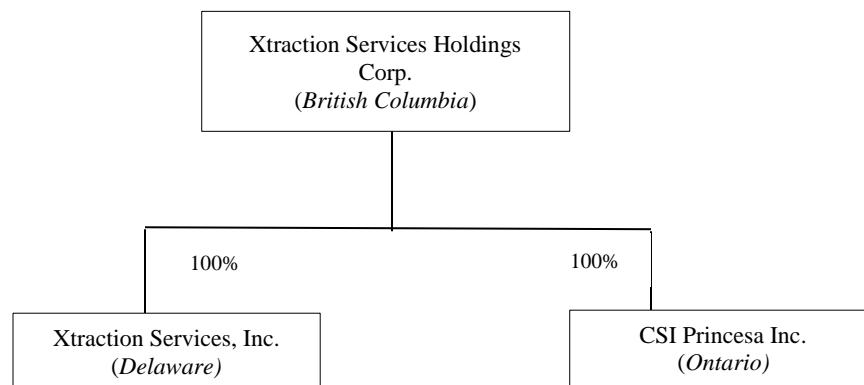
XS’ head and registered office is located at 1901 Avenue of the Stars, Suite 120, Los Angeles, California, 90067 and its registered office is located at Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2Z7.

### 2.2 *Jurisdiction of Incorporation*

The Issuer was originally incorporated on December 3, 2009 under the name Ansue Capital Corp. under the BCBCA as Capital Pool Company (“**CPC**”) as defined under Policy 2.4 of the TSX Venture Exchange (the “**Exchange**”). On April 13, 2011, the Issuer completed the Qualifying Transaction and changed its name to “Caracara Silver Inc.” On April 30, 2018, the Issuer completed a consolidation of the common shares of the Issuer (the “**Common Shares**”) on a one post-consolidation Common Share for every ten pre-consolidation Common Shares basis. In connection with the completion of the Transaction, the Issuer changed its name to “Xtraction Services Holdings Corp.” on September 10, 2019 and effected a further consolidation (the “**Consolidation**”) of the Common Shares on a one post-Consolidation Common Share for every 6.262 pre-Consolidation Common Shares basis. In addition, the Issuer altered its notice of articles and articles to re-designate the post-Consolidation Common Shares as subordinate voting shares (“**Subordinate Voting Shares**”) and create a new class of proportionate voting shares (the “**Proportionate Voting Shares**”) effective September 11, 2019. On June 24, 2020, the Issuer changed its name to “XS Financial Inc.”

### 2.3 *Inter-corporate Relationships*

The following diagram represents the organizational chart of the Issuer as at December 31, 2019:



## 3. GENERAL DEVELOPMENT OF THE BUSINESS

### 3.1 *General Development of the Business*



XS is in the business of leasing and/or financing a wide variety of equipment for use in the cannabis and ancillary sectors. In particular, XS specializes in providing equipment leasing solutions in the United States to properly licensed owner/operators of cannabis and hemp facilities. XS' equipment procurement solutions and leasing programs provide access to industry leading technology from a variety of best-in-class equipment manufacturer's, with reduced upfront cost to the acquiring customers. This powerful dynamic has created a platform for large-scale recurring revenues, maximizing returns for XS' shareholders, and an end-to-end solution for companies in the industry.

XS generates the vast majority of its equipment sales and leases through its employee sales force, who focus on equipment vendors and direct equipment users. XS is currently working with cannabis and hemp businesses that are scaling their operations and seek quick access to large scale industrial equipment. XS' management team has a successful track record of creating shareholder value in scaling high-growth businesses, providing leasing and financing solutions, and driving operational best practices.

### *History*

On August 19, 2011, the Issuer acquired all of the issued and outstanding shares of Caracara Silver Inc. in exchange for 100,000,000 pre-consolidation shares of the Issuer and the assumption of certain intercorporate debt in the amount of approximately C\$250,000 (the "**Qualifying Transaction**"). Following the completion of the Qualifying Transaction, Caracara Silver Inc. was principally in the business of acquiring, exploring and developing mineral properties in Peru and controlled the Princesa silver concessions (the "**Peru Property**") comprising more than 24,000 hectares of land along the Princesa-Pilunani mineralized trend located 210 kilometres north of Juliaca in Southern Peru.

On August 31, 2016, the Issuer executed an option agreement (the "**Alcon Agreement**") with Alcon Exploration Corp. ("**Alcon**"), whereby Alcon was granted the option to earn a 100% interest in the Peru Property by paying the Issuer an aggregate of C\$250,000 and issuing 2,000,000 common shares of Alcon to the Issuer in various tranches over a three-year period.

On April 30, 2018, the Common Shares commenced trading on the NEX board of the Exchange under the symbol "SILV.H".

On November 10, 2018, the Issuer and Alcon amended the Alcon Agreement to amend the consideration for the final payments thereunder to consist of: (i) C\$75,000, settled with common shares of Alcon; (ii) C\$61,611, settled in cash; and (iii) C\$13,389 (US\$10,000), settled in cash as consideration for the transfer of the Peru Property to a Peruvian subsidiary of Alcon. All of these conditions were subsequently satisfied and the Peru Property was transferred to the Peruvian subsidiary of Alcon. The Issuer continues to hold a 1.5% net smelter returns royalty in the Peru Property in addition to the Alcon shares it received pursuant to this transaction

On March 22, 2019, the Issuer and Xtraction Services Inc. ("**XS Subco**") entered into a definitive agreement (the "**Merger Agreement**") pursuant to which the Issuer, through a wholly-owned subsidiary, agreed to acquire all of the issued and outstanding class A and class B common stock (collectively, the "**Xtraction Shares**"), stock options and warrants of XS Subco (the "**Transaction**"). The Transaction was completed on September 11, 2019, and the Subordinate Voting Shares commenced trading on the CSE on September 13, 2019.

*XS Subco*

On December 7, 2017, Archytas Ventures, LLC (“**Archytas**”), a company controlled by Messrs. Kivitz and Radbod, Khrysos Global, Inc. (“**Khrysos**”), a company controlled by Mr. Dwayne Dundore, Xtraction Services, Inc. (a Florida corporation that has since been dissolved and is not related to XS) and Dwayne Dundore entered into a letter agreement (the “**Initial Khrysos Agreement**”), pursuant to which, among other things, the parties to the agreement had agreed to form a new entity, XS Subco, in which Khrysos or its designee would own a 40% equity interest and in which Archytas or its designees would own a 60% interest. The Initial Khrysos Agreement also provided XS Subco with an exclusive right to offer for sale or lease any equipment designed for or which may be used for the cannabis industry produced by or at the direction of Khrysos or any of its affiliates.

Through 2018, XS Subco worked with Khrysos to distribute its Co2 and ancillary extraction equipment. In addition, XS Subco signed an agreement to lease equipment to Carolina Botanical Development LLC (“**Carolina Botanical**”), a company in which Khrysos is an investor. Meanwhile, XS Subco expanded its vendor network to include additional equipment manufacturers which could provide tailored solutions for its expanding customer base. This was primarily driven by XS Subco’s determination that in addition to Co2 equipment, there was a growing need for equipment leasing in a variety of different processing technologies, in particular ethanol technology, given its advantages in processing hemp. XS Subco’s marketing efforts and sales outreach helped to increase the visibility of its brand but also resulted in new relationships and opportunities.

The signing in the United States of the Agriculture Improvement Act of 2018 created significant opportunities in CBD extraction through hemp, and the demand in related equipment bolstered XS Subco’s pipeline. Moreover, XS Subco’s sales department became inundated with potential customers who had already identified equipment they wished to lease and/or acquire. Given these equipment dynamics, XS Subco elected to become equipment/manufacturer agnostic, choosing to work with the most established equipment producers irrespective of their technology.

### XS Subco Financing Activities

Over three tranches in April 2018 and May 2018, XS Subco completed a non-brokered private placement of an aggregate of 2,765 units of XS Subco (each a “**May Unit**”), at a price of US\$1,000 per May Unit raising aggregate gross proceeds of US\$2,765,000. Each May Unit was comprised of one (1) convertible debenture of XS Subco with a principal value of US\$1,000 (each, a “**May Debenture**”) and 250 XS Subco share purchase warrants (each, a “**May Warrant**”). Each May Warrant entitled the holder thereof to purchase one (1) XS Share at an exercise price of US\$0.80 per share for a period of 24 months after the applicable closing date of the private placement. Each May Debenture bears interest at a rate of 8% per annum, payable quarterly until the date that is two (2) years from the applicable closing date of the private placement (the “**May Offering Maturity Date**”). The principal amount of May Debentures plus interest accrued, beginning October 2018, was convertible into XS Shares: (i) at the option of the holder at any time prior to the May Offering Maturity Date, or (ii) automatically immediately prior to a liquidity event (such as the Transaction), in each case at a conversion price of US\$0.60 per XS Share. In connection with the offering, XS Subco issued 149,000 advisory warrants (each, an “**XS May Advisory Warrant**”) to certain finders which entitles such holders to acquire one (1) XS Share at a price of US\$0.60 per XS Share until the date that is two (2) years from the date of issuance.

Over four tranches between September and December 2018, XS Subco completed a subsequent non-brokered private placement comprised of an aggregate of 3,506 convertible debentures with a principal value of US\$1,000 (each, a “**September Debenture**”), raising aggregate gross proceeds of US\$3,506,000. Each September Debenture bears interest at a rate of 10% per annum and matures on the date that is two years from issuance of the September Debentures (the “**September Offering Maturity Date**”). The

principal amount of September Debentures plus accrued interest was convertible into units of XS Subco (“**September Debenture Units**”) at 85% of the subscription receipt issue price of the next qualified securities issued, as defined or at a conversion price of \$0.85 if a qualified financing event is not completed prior to a liquidity event, as defined. Upon closing the Subscription Receipt Financing (as defined below), the conversion price was fixed at C\$0.94. In March 2019, XS Subco amended the conversion feature of the September Debentures pursuant to which each holder of such debentures will receive, upon conversion at C\$0.94 thereof, one XS Share and XS Share purchase warrant, which has a C\$1.50 (US\$1.12) exercise price and a five year term. In connection with the offering, XS Subco issued 241,527 XS advisory warrants (each, an “**XS September Advisory Warrant**”) to certain finders. 35,294 of such warrants entitling holders to acquire one (1) XS Share at a price equal US\$0.85 per XS Share until the date that is two (2) years from the date of issuance and the remaining 206,233 warrants having a term of two (2) years and an exercise price equal to the greater of 85% of the subscription receipt issue price of the next qualified securities issued, as defined, or US\$0.85.

In November and December 2018, XS Subco issued an aggregate of 58,235 warrants (each a “**2018 Service Provider Warrant**”) to service providers with a two (2) year term entitling the holder to acquire one (1) XS Share at an exercise price equal to the greater of 85% of the subscription receipt issue price of the next qualified securities issued by XS, as defined, or US\$0.85.

On March 22, 2019 and April 26, 2019, XS Subco completed a private placement of 5,882 subscription receipts (each, a “**Subscription Receipt**”) at a price of C\$1,000 per Subscription Receipt for aggregate gross proceeds of C\$5,882,000 (the “**Subscription Receipt Financing**”). Each Subscription Receipt was, upon satisfaction of the escrow release conditions contemplated under the Subscription Receipt Financing, convertible into one 10% unsecured convertible debenture of XS Subco in the principal amount of C\$1,000 (each, a “**Sub Receipt Debenture**”). Each Sub Receipt Debenture will mature on the date which is five (5) years from issuance and be convertible, at the election of the holder thereof at any time prior to such date subject to earlier conversion or redemption by XS Subco, into one unit of XS Subco (each, a “**Sub Receipt Unit**”) at a conversion price of C\$1.10 per Sub Receipt Unit. Each Sub Receipt Unit is comprised of one XS Share and one XS Share purchase warrant (each whole warrant, a “**Sub Receipt Warrant**”). Each Sub Receipt Warrant is exercisable into one XS Share at a price of C\$1.50 per share for a period of five (5) years from the date the escrow release conditions are satisfied, as contemplated under the Subscription Receipt Financing.

In connection with the Subscription Receipt Financing, XS Subco issued 774,308 broker and agent warrants (each, a “**Sub Receipt Broker Warrant**”) with 374,308 of the warrants entitling each holder to acquire one Sub Receipt Unit at a price of C\$1.10 over a period of five (5) years from the date the escrow release conditions are satisfied. Upon exercise the holders receive one (1) XS Share and one (1) XS Share purchase warrant, which has a C\$1.50 exercise price and a five (5) year term. The remaining 400,000 warrants has a two (2) year term and a C\$1.10 exercise price. Additionally XS Subco issued 294 Sub Receipt Debentures with a principal value of US\$1,000 (each a “**Sub Receipt Debenture**”) with an aggregate principal amount of C\$294,000 to brokers and agents. Each Sub Receipt Debenture bears interest at a rate of 10% per annum payable quarterly and matures on the date that is five (5) years from date of the issuance. The Sub Receipt Debenture can be converted at C\$1.10 into one (1) XS Share and one (1) XS Share purchase warrant at any time prior to maturity or in a change in control. The warrants have an exercise price of C\$1.50 and a five (5) year term. Upon a change in control, XS Subco is required to purchase at 105% of the principal and interest.

Following the completion of the Transaction, upon conversion thereof, each holder of a Sub Receipt Debenture is now entitled to receive one Subordinate Voting Share and one Subordinate Voting Share purchase warrant reflecting the same terms as the Sub Receipt Warrant.

In April and May 2019, XS Subco agreed to issue 712,045 XS Shares to investment advisors and a third party service provider.

In May 2019, XS Subco sold 45,455 XS Shares to a service provider at a price of C\$1.10, with such proceeds being used to pay another service provider, which is an entity that is a related party to the investor.

In April 2019, XS Subco issued 500,000 warrants (each a “**April 2019 Warrant**”) to an advisor entitling the holder to acquire one (1) XS Share at a price equal C\$1.10 per XS Share until the date that is five (5) years from the date of issuance.

In May 2019, XS Subco issued 36,818 warrants (each a “**2019 Service Provider Warrant**”) to a service provider entitling the holder to acquire one (1) XS Share at a price equal C\$1.10 per XS Share until the date that is two (2) years from the date of issuance.

In January, February, March and April 2019, XS Subco received US\$1,100,000 in the form of term loans from Archytas. The term loans had maturity dates ranging from six months to one year and bear interest at a rate of 18% per annum, payable monthly.

### ***Acquisitions and Dispositions***

The Issuer has not completed any significant acquisition or significant disposition during its most recently completed financial year or its current financial year for which *pro forma* financial statements would be required under National Instrument 41-101 *General Prospectus Requirements* if this Listing Statement were a prospectus.

### ***Previous Financing Activities***

On June 11, 2018, the Issuer completed a private placement offering of an aggregate of 16,213,333 units of the Issuer (each, a “**Caracara Unit**”) at a price of C\$0.075 per Caracara Unit for aggregate gross proceeds of C\$1,216,000. Each Caracara Unit was comprised of one (1) Common Share and one (1) purchase warrant (each, a “**Caracara Warrant**”). Each Caracara Warrant entitling the holder thereof to purchase one (1) Common Share at a price of C\$0.15 until June 10, 2019. In connection with the offering, the Issuer issued 451,743 broker units to certain finders which entitling such holders to acquire one (1) Caracara Unit at a price of C\$0.10 per Caracara Unit until December 10, 2018.

## ***3.2 Industry Background and Trends***

### ***Industry and Regulatory Overview***

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* (“**Staff Notice 51-352**”) which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state’s regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

XS is involved in ancillary activities that, according to Staff Notice 51-352, could categorize XS as a U.S. Marijuana Issuer with material ancillary involvement in the cultivation and distribution of cannabis in various U.S. states. As of the date hereof, XS has no further direct or indirect cannabis-related activity

elsewhere in the United States. As a result of XS 's ancillary involvement in the aforementioned states, XS is subject to Staff Notice 51-352 and accordingly provides the below disclosure.

### *United States Federal Overview*

In the United States, 36 states, Washington D.C., and Puerto Rico have legalized medical marijuana, while 14 states and Washington D.C. have also legalized recreational marijuana. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the CSA. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remains illegal under United States federal.

For over five years, the U.S. government has not enforced those laws against cannabis companies complying with state law and their vendors. On January 4, 2018, then acting U.S. Attorney General Jeff Sessions issued a memorandum for all U.S. Attorneys (the "Sessions Memo") rescinding certain past the DOJ memoranda on cannabis law enforcement, including the Cole Memo. Describing the criminal enforcement of federal cannabis prohibitions against those complying with state cannabis regulatory systems as an inefficient use of federal investigative and prosecutorial resources, the Cole Memo gave federal prosecutors discretion not to prosecute against state law compliant cannabis companies in states that were regulating cannabis to avoid violating eight federal priorities such as avoiding youth usage. The Sessions Memo, which remains in effect, states that each U.S. Attorney's Office should follow established principles that govern all federal prosecutions when deciding which cannabis activities to prosecute. As a result, federal prosecutors could and still can use their prosecutorial discretion to decide to prosecute even state-legal cannabis activities. Since the Sessions Memo was issued over two-and-a-half years ago, however, U.S. Attorneys have not prosecuted state law compliant entities. Former Attorney General William Barr testified in his confirmation hearing on January 15, 2019, that he would not upset "settled expectations," "investments," or other "reliance interest[s]" arising as a result of the Cole Memo, and that he does not intend to use federal resources to enforce federal cannabis laws in states that have.

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memo nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the production, sale, and disbursement of medical or recreational marijuana, even if state law sanctioned such production, sale, and disbursement. It remains unclear whether the risk of enforcement has actually been altered.

Additionally, proceeds from the sale of marijuana or any other Schedule I controlled substance can result in a violation of federal money laundering statutes. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a memorandum on February 14, 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a Suspicious Activity Report ("**SAR**") in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These marijuana-related SARs are divided into three categories: (i) marijuana limited; (ii) marijuana priority; and (iii) marijuana terminated, based on the financial institution's belief that

the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated.

Former Attorney General Sessions' revocation of the Cole Memo and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memo. As such, the FinCEN Memorandum remains intact.

### ***Enforcement of U.S. Federal Laws***

For the reasons set forth above, XS' existing ancillary involvement in the United States, and any future ancillary involvement, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, XS may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on XS' ability to continue to operate its business in the United States or other jurisdictions.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which XS could expand.

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on XS, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for XS to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

### ***U.S. Enforcement Proceedings***

Since 2014, the United States Congress has passed appropriations bills which included provisions that courts have interpreted to prevent the the DOJ from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law (currently the "**Joyce Amendment**", and previously referred to as the Rohrabacher-Farr Amendment). There can be no assurances that the Joyce Amendment will be included in future appropriations bills.

### ***2018 Farm Bill***

In December 2018, President Trump signed the 2018 Farm Bill, which contained certain provisions legalizing the production, extraction, interstate commerce, etc., of industrial hemp. Industrial hemp is defined as hemp which contains less than 0.3% THC, the cannabinoid most commonly associated with

intoxication which is contained within cannabis and hemp plants, on a dry weight basis. This bill legalizes U.S. hemp for production and sale across state lines for research and commercial uses for all hemp that meets all the following criteria: the hemp contains less than 0.3% THC; the producer of the hemp is licensed by the state where it was grown; and the state where it was grown has a hemp program approved by the United States Department of Agriculture (“USDA”). Each state is allowed to submit a hemp regulatory program for USDA approval. The USDA will be working on reviewing submitted programs and constructing a hemp regulatory program for all states with no submitted program. No programs are currently approved by the USDA. Once a program is approved, producers may apply for licenses under the program and sell hemp legally for all purposes after the license is obtained. Hemp is a genetically related plant to cannabis and has long been prohibited based at least in part on its similarity to cannabis, which tends to contain significantly higher amounts of THC than hemp. Hemp, unlike cannabis plants which tend to be richer in THC, is the most common source of CBD. Research suggests that CBD is a non-psychoactive cannabinoid which may have several therapeutic effects. CBD is increasingly becoming popular as a wellness product, and its usage as an adjunct to THC is increasing as well.

*Compliance with Applicable State Law in the United States*

To the knowledge of XS, each state licensee with a business relationship with XS complies with applicable U.S. state licensing requirements. To the knowledge of XS, each business holding a contractual relationship with XS and/or its subsidiaries, that is a license holder, holds licenses that are in good standing to cultivate, possess and/or wholesale marijuana in its respective state in the United States in compliance with its respective state marijuana regulatory program. To the knowledge of XS, no licensee has experienced any material non-compliance that would endanger the status of any license.

XS is in compliance with applicable U.S. state and local law. XS has engaged United States legal counsel to advise XS in connection with compliance with applicable state laws on an ongoing basis.

Table of Concordance

In accordance with Staff Notice 51-352, below is a table of concordance that is intended to assist readers in identifying those parts of this Listing Statement that address the disclosure expectations outlined in Staff Notice 51-352.

<b>Industry Involvement</b>	<b>Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties</b>	<b>Listing Statement Cross Reference</b>
All Issuers with U.S. Marijuana-Related Activities	Describe the nature of the issuer's involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.	Section 3 – General Development of the Business – <i>Industry and Background Trends</i> Section 4 – Narrative Description of the Business – <i>General Development of the Business of XS</i>
	Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.	See Cover Page (disclosure in bold typeface)
	Discuss any statements and other available guidance made by federal authorities or prosecutors regarding	Section 3 – General Development of the Business – <i>Industry and Background Trends</i>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.	<p>Section 17 – Risk Factors – <i>Risk Factors specifically related to the United States Regulatory System</i></p> <p>Section 17 – Risk Factors – <i>Risk of Civil Asset Forfeiture</i></p> <p>Section 17 – Risk Factors – <i>XS 's operations in the United States may be subject to heightened scrutiny.</i></p> <p>Section 17 – Risk Factors – <i>Enforceability of Contracts</i></p> <p>Section 17 – Risk Factors – <i>XS is subject to applicable anti-money laundering laws and regulations.</i></p>
	Given the illegality of marijuana under U.S. federal law, discuss the issuer's ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.	<p>Section 4 – Narrative Description of the Business – <i>Principal Purposes of Funds</i></p> <p><i>Additional Financing</i></p> <p>Section 17 – Risk Factors – <i>Ability to Access Private and Public Capital</i></p>
	Quantify the issuer's balance sheet and operating statement exposure to U.S. marijuana-related activities.	<p>Section 5 – Selected Financial Information</p> <p>Schedule “A” to the Listing Statement.</p>
	Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.	Legal advice has been obtained.
U.S. Marijuana Issuers with direct involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	Not applicable.



Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	Discuss the issuer's program for monitoring compliance with U.S. state law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. state law and the related licensing framework. Promptly disclose any non-compliance, citations or notices of violation which may have an impact on the issuer's licence, business activities or operations.	Not applicable.
U.S. Marijuana Issuers with indirect involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer's investee(s) operate.	Not applicable.
	Provide reasonable assurance, through either positive or negative statements, that the investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Promptly disclose any non-compliance, citations or notices of violation, of which the issuer is aware, that may have an impact on the investee's licence, business activities or operations.	Not applicable.
U.S. Marijuana Issuers with material ancillary involvement	Provide reasonable assurance, through either positive or negative statements, that the applicable customer's or investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	To the best of XS' knowledge, its current customers' businesses are in compliance with the licensing requirements and regulatory frameworks enacted by each of the U.S. states in which each of the customers do business.

### ***Growth of Cannabis Market***

The growth of the retail cannabis market in the United States is projected to grow from approximately \$5 billion as of 2016 to over \$50 billion in 2026 based on certain assumptions including higher per-capita consumption and a consumer shift towards higher-end, more value-added cannabis products in legalized markets in the United States.<sup>1</sup>

<sup>1</sup> Cowen and Company, The Cannabis Compendium: Cross-Sector Views on a Budding Industry, AHEAD OF THE CURVE SERIES, September 12, 2016.

### *Lack of Financing Options for Cannabis Related Entities*

A challenge faced by entities in the cannabis industry is a lack of availability of banking services including access to loans and other credit facilities from banks. This barrier exists mainly as a result of cannabis being illegal under the federal laws of the United States. Even in those states where cannabis-related activity has been legalized, the United States Treasury Department guidance requires banks to file “suspicious activity” reports for every cannabis-related company transaction. As such, banks that conduct business with cannabis-related companies may pass compliance costs on to their customers.

## **4. NARRATIVE DESCRIPTION OF THE BUSINESS**

### *General Development of the Business of XS*

XS is a provider of leasing, financing and equipment distribution services. XS works in conjunction with third party equipment manufacturers to source and fund equipment leases (“**Equipment Leasing**”). XS specializes in providing such services to owner/operators of cannabis and hemp businesses and related companies. XS sources its Equipment Leasing through both a direct sales model and in coordination with third party equipment manufacturers focusing on identifying direct equipment users who could benefit from XS’ Equipment Leasing and ancillary services.

Through the direct sales model, the Equipment Leasing program services an important market of growing businesses by acquiring and financing or leasing equipment to customers, providing such customers with the ability to make capital intensive equipment purchases without a large initial outlay of funds; this is especially relevant in an industry where access to capital is limited. In addition, through the indirect sales model, XS’ team focuses on equipment manufacturers who stand to benefit from extending such leasing to their end-customers and such customers’ need for Ancillary Services.

XS is led by David Kivitz, its Chief Executive Officer. Mr. Kivitz has extensive experience in scaling growth businesses, including nine years as Managing Partner of Alta Verde Group (“**AVG**”), a company he co-founded to acquire distressed residential assets resulting from the U.S. housing market crash. Under Mr. Kivitz’s leadership, AVG successfully grew sales in excess of \$50 million per year, raised over \$250 million in various forms of land and construction financing, completed numerous property acquisitions and experienced significant organic growth.

XS has organized its business activities around three core objectives: (i) equipment lease sourcing (see “Principal Products and Services – Equipment Leasing – Distribution and Customer Acquisition” below); (ii) credit and portfolio management services (see “Principal Products and Services – Equipment Leasing – Pricing” below); and (iii) corporate development.

With respect to corporate development, XS continues to assess numerous acquisition opportunities and intends to focus on pursuing those opportunities that align with its acquisition growth objectives, primarily in the U.S., with assets will primarily consist of businesses that can provide XS with immediate origination and processing capabilities and a strong local management team. While XS takes a disciplined approach to acquisition opportunities it may choose to pursue, it believes that significant strategic and accretive opportunities exist. By scaling up through organic and external growth initiatives, XS believes significant synergies could be realized including greater brand visibility, increased market penetration and a decreased cost of capital.

### Business Objectives and Strategy

The Issuer's near term business objectives and strategy include: (i) acquiring new customers; (ii) hiring and adding new personnel to its underwriting, sales and operations teams; (iii) expanding and automating its underwriting policies; and (iv) securing additional debt financing to fund future growth initiatives.

The Issuer's long-term objectives include: (i) expanding supplier relationships with existing and new manufacturers of high-quality equipment; (ii) expanding its equipment leasing portfolio with entities involved in the cultivation, processing, refinement and testing of cannabis; and (iii) strengthening its core capital to reduce the cost of capital and reduce or eliminate dependence on third party financing.

XS is reliant on the various equipment manufacturers who will supply the equipment to complete this and all installations. Should the various original equipment manufacturers supplying equipment have issues, including with respect to delivery timing, backlog, service and or support, this could impact XS' ability to complete installations in a timely manner, which could impact contracts with its customers, and its ability to generate revenue in the near term.

### ***Recent Developments and Outlook***

#### *Revenue Activity*

XS continues to assess numerous leasing opportunities and intends to focus on pursuing those opportunities that align with its growth objectives, primarily in the US. Target leasing opportunities will primarily consist of leases to businesses underpinned by recurring, predictable revenues, sound balance sheets and an experienced management team. While the Company recognizes the challenging market dynamics of the Cannabis sector, XS remains well-positioned to execute its business plan due to the fact that many Cannabis businesses require mission-critical equipment to operate and grow, but lack sufficient access to new capital or are burdened with expensive sources of financing.

Since XS' creation less than 3 years ago, the Company has established key customer relationships, some of which became revenue generating in 2018, with the remainder of its established customers generating revenue in 2019.

In November 2018, XS entered into a royalty-based lease agreement with Puritix, LLC ("Puritix") to provide Puritix with two (2) full production lines of equipment to be used to produce CBD distillate oil. Per the terms of the agreement, XS will receive \$1 per gram of distillate oil that is produced through the equipment by Puritix for a period of 30 months with a minimum monthly revenue requirement of \$50,000. In third quarter of 2019, the Company reached an agreement with Puritix to reduce the quantum of equipment to be delivered in exchange for a modification to the payment terms. This modification entailed a decreased per gram cost (\$0.60 per gram) calculated on the quantity of a lesser refined product (winterized crude oil) produced. With this amendment, the Company completed the delivery and final installation of the servicing equipment at Puritix and began to generate revenues in the third quarter of 2019, four months earlier than anticipated.

In March 2019, XS entered into a lease agreement with Carolina Botanical Development LLC ("CBD LLC"), to lease an extraction machine and other ancillary processing equipment. CBD LLC has been identified as a related party to the Company as a result of a shareholder of the Company also being an owner of CBD LLC. Per the terms of the agreement, the lease has a term of 12 months with expected total monthly rentals of approximately \$235,000 and an end of lease balloon payment of approximately \$302,000 to be received by the Company less \$100,000 to be paid directly to the related party owner of CBD LLC and shareholder of XS. In July 2019, the Company entered into a second rental lease agreement with CBD LLC, to lease one extraction machine. Per the terms of the agreement, the lease has

a term of 13 months with expected total monthly rentals of approximately \$281,000 and an end of lease balloon payment of approximately \$39,000 to be received by XS.

In November 2019, the Company reached a mutual agreement with an existing customer to terminate a lease arrangement due to the customer experiencing financial hardship. XS excluded revenues from this customer in the third and fourth quarter. Working with the customer, the Company made arrangements to collect all service equipment previously held at the customer location and sold, redeployed or recovered all equipment related to this engagement. The Company notes that all equipment had been sold or redeployed by year-end. As a result, the Company recorded a non-cash loss on sale of servicing equipment of \$126,000. Of this amount, approximately \$81,000 was recognized in the third quarter with the remainder realized in the fourth quarter. The equipment subject to sale was considered ancillary in nature while more modern, impactful equipment was redeployed to other customers.

In November 2019, the Company entered into a sale-leaseback agreement, with Halo Labs Inc., (“Halo”) a leading cannabis extraction company that develops and manufactures quality cannabis oils and concentrates operating in California, Oregon and Nevada. The Leaseback Agreement was provided against a variety of existing equipment including but not limited to; extraction, pre and post processing, freezers and security equipment, valued at \$600,000. Per the terms of the agreement, the lease has a term of 36 months with expected total monthly rentals and fees of approximately \$850,000. Additionally, Halo has the option to repurchase the leased equipment at the end of month 18 for \$275,000 and an end of lease term purchase option for \$50,000.

In 2019, the Company completed the delivery and installation of the servicing equipment sale with Vash Holdings in the amount of approximately \$1,070,000 that was paid in full upfront.

#### *Khrysos Joint Venture Termination*

Beginning in 2017, the Company worked with Khrysos to distribute Khrysos produced Co2 and ancillary extraction equipment. As part of the arrangement the Company entered into a joint venture and commercial arrangements agreement whereby Khrysos was granted a 40% ownership interest in the Company and received minimum purchase commitments from the Company in exchange for the Company receiving purchase and intellectual property rights and an exclusive right to offer for sale, purchase, lease and or use any equipment designed for the cannabis industry produced by Khrysos. The Company recognized an intangible asset for approximately \$766,000 for such rights and exclusivity. The mutual exclusivity arrangement called for a temporary price increase of 5% until such time the Company had \$16,000,000 (equivalent of \$800,000) of cumulative equipment purchases from Khrysos. The Company never met the purchase commitments and throughout 2019 expanded its range of product offerings to include other vendors in order to provide tailored, end-to-end solutions for customers. In November 2019, the Company and Khrysos entered into an agreement that released the Company for any obligations associated with the purchase commitment in exchange for the Company returning previously purchased servicing equipment. As a result of this agreement the Company determined that the intangible asset associated with the mutual exclusivity arrangement no longer maintained value and recorded an impairment loss of approximately \$472,000 for the intangible assets remaining net book value.

In December 2019, the Company entered into a share buyback agreement with Khrysos and a former employee of the Company who is now an employee of Khrysos whereby the Company purchased Khrysos’s proportionate voting shares of 5,889 and the former employee’s common shares of 622,631. The fair value of the shares at the time of the exchange was estimated to be approximately \$1,400,000. A difference of approximately \$425,000 between the fair value of the shares returned and their carrying value was charged directly to deficit. As part of the exchange, 600,000 stock options held by Khrysos

with a fair value of approximately \$93,000 were also cancelled. A gain of approximately \$192,000 was recognized on this exchange transaction, representing the difference between the fair value of the shares returned and stock options cancelled, and the equipment given up.

#### *Servicing Equipment and Prepaid Servicing Equipment Divestitures*

Throughout 2019 the Company sold and exchanged excess servicing equipment and prepaid servicing equipment to both third party buyers and Khrysos. The total of these transactions resulted in the Company reducing the net book value of servicing equipment and prepaid servicing equipment by approximately \$2,035,000, receiving gross proceeds of approximately \$821,000, reducing accounts payable obligations by approximately \$371,000 and recognizing losses of approximately \$843,000.

As noted above in December 2019, the Company entered into a share buyback agreement with Khrysos and a former employee of the Company who is now an employee of Khrysos whereby the Company exchanged servicing equipment and spare parts inventory for Khrysos's proportionate voting shares and the former employee's common shares. The transaction resulted in a decrease of approximately \$1,241,000 in servicing equipment and prepaid servicing equipment.

#### Funds Available

XS has historically relied upon debt and equity financings to satisfy its capital requirements and may require further equity and/or debt capital to finance its development, expansion and activities moving forward. The working capital of the Issuer as at December 31, 2019 is estimated to be CAD\$2,340,847 (US\$1,802,038). The Issuer intends to use the funds available to it as set out in the following table:

<b>Use of Available Funds</b>	<b>Amount (United States Dollars)</b>
Working Capital Purposes (including new hires)	\$200,000 <sup>(1)</sup>
Accrued and Future Interest Payments	\$538,000 <sup>(2)</sup>
Funds Dedicated to Commercial Activities	\$1,064,000 <sup>(3)</sup>

- (1) This amount is expected to fund ongoing general and corporate expenses of the Issuer and its subsidiaries including in respect of rent, professional fees, salaries and fees owed to current employees and consultants and additional new hires that the Issuer intends to make.
- (2) This amount is expected to satisfy accrued interest and interest that will be owing to Archytas and certain convertible debenture holders. The accrued interest and future interest related to principal debt which was used by XS for working capital purposes and the acquisition of servicing equipment. The Company notes the working capital figure presented already incorporates the repayment of all Archytas term loans which are presented as short-term liabilities at December 31, 2019.
- (3) This amount represents the base amount which would be allocated to commercial activities of the business including leasing, financing and/or equipment sales before considering any new sources of capital or additional financing.

Notwithstanding the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Issuer to achieve its objectives. The amounts shown in the table above are estimates only.

Given the fact that the legal cannabis industry is emerging, it is difficult to definitively project revenue or the commensurate funds required to complete the future undertakings of the Issuer. For these and other reasons, management considers it to be in the best interests of the Issuer to permit management a reasonable degree of flexibility as to how the Issuer's funds are deployed among the above uses and/or to pursue other

business objectives including, without limitation, the building out and expansion of the Issuer's leasing portfolio and ancillary services.

XS has incurred losses and negative cash flows from operations since inception which may indicate the existence of material uncertainties which cast substantial doubt on XS' ability to continue as a going concern. XS' ability to continue as a going concern is dependent on achieving a profitable level of operations and obtain additional financing, neither of which are assured. XS anticipates incurring additional losses until such time it can generate sufficient revenue from its operations to cover its expenses. The Issuer may require additional funds in order to pursue and fulfil such other business objectives, and may seek to issue additional securities or incur debt in order to do so. Historically, XS has been successful in obtaining enough funding for operating and capital requirements, however, there can be no assurance that additional funding required by the Issuer will be available, if required. See "Risk Factors".

### Principal Products or Services

The Issuer's primary product and service offerings include Equipment Leasing and Ancillary Services.

#### Equipment Leasing

XS currently operates within the mid-ticket segment of the cannabis and hemp equipment industry which involves leasing equipment ranging in value from approximately US\$10,000 to over US\$1,000,000. The cannabis and hemp equipment leasing industry in the U.S. is currently limited due to the federal illegality of cannabis and the various state and federal restrictions on cannabis and hemp. This dynamic presents an opportunity for cannabis and hemp equipment leasing from alternative providers of lease financing.

#### Pricing

XS' pricing strategy is in-line with market terms and allows it to be price competitive. Lease revenues are derived from leased equipment and typically incorporate additional margin due to XS' relationships with industry equipment manufacturers. XS' pricing strategy, particularly as it relates to its leasing business, may be impacted by certain factors including fluctuations in interest rates. XS continually monitors its pricing strategy to ensure it remains competitive. See "Competitive Conditions" below.

For any Equipment Leasing, XS believes that effective credit management is critical to its success. XS has adopted and uses a comprehensive underwriting process, which takes into consideration the business objectives, strategies and credit philosophies of XS, in considering prospective new business leases within its business units and for managing its existing asset portfolio. XS' underwriting process ensures that all applications for credit receive final approval from the company's senior management team. XS' senior management team regularly reviews and monitors the credit process to ensure that its contents prudently reflect XS's current business objectives and strategies as well as economic conditions currently in effect.

The following summary provides certain information about XS' credit approval process and risk management expertise with respect to equipment that it leases to customers in consideration for monthly lease payments, some or all of which, may be utilized to determine approval limits:

- Application
  - Customer application includes a mix between personal and business identification and financial details
  - Business overview and equipment specification request
- Credit Adjudication

- Application information is combined with underlying data from a customer’s credit report, when applicable
- Determines customer acceptability, credit limit and leasing charges
- Affordability
  - Detailed review of financial statements, business plans, bank statements, tax records, and pro forma projections
  - Establishes a maximum lease amount based on ability to repay
  - Guarantees or other assets, where applicable
- Verification
  - Supporting documentation validation including identity, customer consent, residency, credit report, banking history, income, expenses, corporate documentation, background checks
- Fulfillment
  - Documentation generation/signatures
  - Centralized funding control

### *Distribution and Customer Acquisition*

XS has a multi-pronged approach for customer acquisition. XS’ retail channel is focused on content strategy to position the company as a thought leader in equipment leasing. XS is also focused on channel marketing through its relationships with industry equipment manufacturers. By providing equipment sales and leasing solutions, XS provides the bridge between manufacturers and their end customers. This strategy decreases XS’ customer acquisition costs and reduces the sales closing timeline. XS has a robust pipeline and a continuous flow of inbound requests from customers looking for equipment leasing options. We have a highly trained team concentrated on targeting high-value targets for XS.

XS has created a streamlined process utilizing technologies for lead generation, underwriting, digital targeting, and customer relationship management (“**CRM**”) to maximize resources and human capital. XS currently has a considerable audience of interested parties seeking equipment leasing and service for extraction, preprocessing and post processing equipment. These companies range in location, maturity, size, and equipment needs. While a majority of these are considered viable customers, Xtraction has chosen to be selective in determining the customers to whom it extends its services.

### Reliance on Customers

XS’ revenue is derived from customers in the United States with three customers representing approximately 89% of total revenues at December 31, 2019. Post year-end, the issuer’s customer base diversified and the Company aims to have no single customer representing more than 25% of total revenues by the end of fiscal 2020.

### Competitors

While XS is not aware of any entity that provides the same products and services as that of XS, it regards companies such as Trichome Financial Corp., Reich Brothers, Sweet Leaf Capital and Auxly Cannabis Group Inc., as its competitors. While not being offered at scale currently, it is also possible that certain equipment manufacturers may elect to initiate in house leasing or financing programs that would compete with XS.

## Employees

As of the December 31, 2019, XS had 3 employees and 4 independent contractors. XS prides itself in hiring talented individuals with a complementary mix of professional experience and industry knowledge. XS believes it has an advantage in attracting these employees with its strong reputation as a leader in the sector and its unique approach to leasing. XS believes in investing in each of its employees and devotes the necessary resources to ensure all employees are given the proper tools and resources to grow in their respective fields. XS also believes in cultivating a collaborative working environment wherein everyone is valued for their contribution to the team and rewarded for their accomplishments.

As of December 31, 2019, all of XS' employees were non-unionized.

## 5. SELECTED FINANCIAL INFORMATION

The following table sets out certain selected financial information of the Issuer in summary form for the fiscal years ended June 30, 2017, 2018 and December 31, 2019. This selected financial information has been derived from and should be read in conjunction with XS' financial statements which are attached to this Listing Statement as Schedule "A". All amounts presented are in the currencies indicated in the table below

	As at and for the fiscal year ended June 30, 2017 (US\$)	As at and for the fiscal year ended December 31, 2018 (US\$)	As at and for the fiscal year ended December 31, 2019 (US\$)
<b>Statement of Operations</b>			
Total revenue	nil	\$146,776	\$2,289,817
Net income (loss) from continuing operations	(250,295)	(\$5,839,645)	(\$6,946,846)
Net income (loss)	(375,057)	(\$5,839,645)	(\$6,946,846)
Net income (loss) per share (basic and diluted)	(0.02)	(\$0.21)	(\$0.18)
<b>Statement of Financial Position</b>			
Total assets	3,491,541	\$6,691,867	\$4,474,606
Total liabilities	1,266,299	\$7,586,086	\$3,549,613
Cash dividends per share	nil	nil	nil

## Dividends

The Issuer has not paid dividends on any of its Common Shares, Subordinate Voting Shares or Proportionate Voting Shares in the past.

## 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

See Schedule "B" – "*Management's Discussion and Analysis*".



## 7. MARKET FOR SECURITIES

The Subordinate Voting Shares are listed for trading on the CSE under the symbol “XSF” and the OTCQB under the symbol “XSHLF”. Prior to listing on the CSE, the Common Shares were listed for trading on the NEX Board of the TSX Venture Exchange under the symbol “SILV.H”.

## 8. CONSOLIDATED CAPITALIZATION

The following table summarizes the share capital of the Issuer as at December 31, 2019:

<b>Description</b>	<b>Amount Outstanding</b>
Subordinate Voting Shares	29,986,764
Proportionate Voting Shares <sup>(1)</sup>	12,207
Stock Options <sup>(2)</sup>	3,010,129
Share Purchase Warrants <sup>(3)</sup>	8,466,908
Debentures (principal amount outstanding) <sup>(4)</sup>	US\$4,126,148

Notes:

(1) Represents 12,207,598 Subordinate Voting Shares as converted.

(2) Average exercise price of CAD\$0.38

(3) Average exercise price of CAD\$1.02

(4) Converted value based on CAD-denominated debentures totaling CAD\$5,482,000

## 9. OPTIONS TO PURCHASE SECURITIES

The following table sets forth the aggregate number of options of the Issuer (the “**Issuer Options**”) that are outstanding as at December 31, 2019.

	<b>Shares under Options Granted</b>	<b>Exercise Price</b>	<b>Date of Grant</b>	<b>Expiry Date</b>
Executive officers of XS	250,000 <sup>(1)</sup>	US\$0.60	07/19/18	07/19/28
Other employees and former employees of XS	38,435	US\$0.60	07/19/18	07/19/28
Consultants of XS	440,000	US\$0.60	07/19/18	07/19/28
Any other person or company	326,694	US\$0.60	07/19/18	07/19/28
Executive officers of XS	500,000	C\$0.34	11/25/19	11/25/24
Directors of XS (who are not also officers)	600,000	C\$0.34	11/25/19	11/25/24
Other employees and former employees of XS	75,000	C\$0.34	11/25/19	11/25/24
Consultants of XS	780,000	C\$0.34	11/25/19	11/25/24
<b>Total</b>	<b>3,010,129</b>			

Notes: (1) Includes 200,000 options held by Archytas.

All Issuer Options are governed by the terms of an omnibus incentive plan (the “**Omnibus Incentive Plan**”) under which Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Deferred Stock Units or Other Stock-Based Awards may be granted to the Issuer’s directors, officers, employees and consultants.

### **Summary of the Omnibus Incentive Plan**

The purpose of the Omnibus Incentive Plan is to attract, retain and reward those employees, directors and other individuals who contribute significantly to the success of the Issuer, to incentivize such individuals to perform at the highest level, to strengthen the mutuality of interests between such individuals and the Issuer’s shareholders and, in general, to further the best interests of the Issuer and the Issuer’s shareholders. The Omnibus Incentive Plan is intended to comply with Section 422 of the U.S. Internal Revenue Code of 1986 (the “**Code**”) with respect to the U.S. employees participating in the Omnibus Incentive Plan, if and when applicable.

The aggregate number of Subordinate Voting Shares which are reserved for issuance pursuant to all awards granted under the Omnibus Incentive Plan is fixed at 15% of the issued and outstanding Subordinate Voting Shares from time-to-time when taken together with all other Security Based Compensation Arrangements (as defined in the Omnibus Incentive Plan) of the Issuer, provided no more than 10,000,000 Subordinate Voting Shares may be reserved and available under the Omnibus Incentive Plan.

The following is a summary of the material terms of the Omnibus Incentive Plan:

- (i) no non-employee director may be granted any award or awards that exceed in the aggregate US\$100,000 (such value computed as of the date of grant in accordance with applicable financial accounting rules) in any calendar year;
- (ii) with respect to Options (as defined in the Omnibus Incentive Plan):
  - (A) the purchase price per share purchasable under an Option shall be determined by a committee of the Board (the “Committee”) and shall not, except in the case of certain exceptions as set out in the Omnibus Incentive Plan, be less than 100% of the Fair Market Value (as defined in the Omnibus Incentive Plan) of a share on the date of grant of such Option; and
  - (B) the term of each Option shall be fixed by the Committee at the date of grant but shall not be longer than ten years from the date of grant;
- (iii) with respect to Incentive Stock Options (as defined in the Omnibus Incentive Plan):
  - (A) the Committee will not grant Incentive Stock Options in which the aggregate Fair Market Value (determined as of the time the Incentive Stock Option is granted) of the shares with respect to which Incentive Stock Options are exercisable for the first time by any participant during any calendar year shall exceed US\$100,000;
  - (A) the maximum number of Subordinate Voting Shares that may be issued pursuant to Incentive Stock Options shall not exceed 15% of the number of Subordinate Voting outstanding;
  - (B) all Incentive Stock Options must be granted within ten years from the earlier of the date on which the Omnibus Incentive Plan was adopted by the Board or the date the Omnibus Incentive Plan was approved by the shareholders of the Issuer;
  - (C) all Incentive Stock Options shall expire and no longer be exercisable no later than 10 years after the date of grant;
  - (D) the terms of any Incentive Stock Options shall comply in all respects with the provisions of Section 422 of the U.S. internal Revenue Code of 1986; and
  - (E) the purchase price per Subordinate Voting Share for an Incentive Stock Option shall be not less than 100% of the Fair Market Value of a Subordinate Voting Share on the date of grant of the Incentive Stock Option; *provided, however*, that, in the case of the grant of an Incentive Stock Option to a participant who, at the time such Incentive Stock Option is granted, owns (within the meaning of Section 422 of the Code) shares possessing more than 10% of the total combined voting power of all classes of shares of the Issuer, the purchase price per Subordinate Voting

Share purchasable under an Incentive Stock Option shall be not less than 110% of the Fair Market Value of a Subordinate Voting Share on the last trading date prior to the grant of such Incentive Stock Option;

- (iv) with respect to Stock Appreciation Rights (as defined in the Omnibus Incentive Plan);;
  - (A) Stock Appreciation Rights granted under the Omnibus Incentive Plan may be granted either alone or in addition to other awards and may, but need not, relate to a specific Option grant;
  - (B) any tandem Stock Appreciation Rights related to an Option may be granted at the same time as such Option. In the case of any tandem Stock Appreciation Right related to any Option, the Stock Appreciation Right or applicable portion thereof shall not be exercisable until the related Option or applicable portion thereof is exercisable and shall terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a Stock Appreciation Right granted with respect to less than the full number of Subordinate Voting Shares covered by a related Option shall not be reduced until the exercise or termination of the related Option exceeds the number of Subordinate Voting Shares not covered by the Stock Appreciation Right; and
  - (C) the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee, provided that a freestanding Stock Appreciation Right shall not have a term of greater than 10 years or, unless it is a Substitute Award (as defined in the Omnibus Incentive Plan), an exercise price less than 100% of Fair Market Value of the Subordinate Voting Share on the last trading date prior to the date of grant.
- (v) shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose;
- (vi) the Committee, in its discretion, may award dividend equivalents with respect to awards of Deferred Stock Units and the entitlements on such dividend equivalents will not be available until the expiration of the deferral period for the award of the Deferred Stock Units; and
- (vii) with respect to Other-Stock Based Awards, the Committee is authorized to grant such other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Subordinate Voting Shares, as are deemed by the Committee to be consistent with the purpose of the Omnibus

Incentive Plan and the Committee shall determine the terms and conditions of such awards.

Notwithstanding the above, the number of Subordinate Voting Shares which are issuable to Insiders (as defined in the Omnibus Incentive Plan) under all Security Based Compensation Arrangements of the Issuer may not exceed 10% of the issued and outstanding Subordinate Voting Shares and the number of Subordinate Voting Shares issued to Insiders within any one-year period, under all Security Based Compensation Arrangements of the Issuer, may not exceed 10% of the issued and outstanding Subordinate Voting Shares.

## 10. DESCRIPTION OF THE SECURITIES

The authorized share capital of the Issuer consists of an unlimited number of Subordinate Voting Shares and an unlimited number of proportionate voting shares. Generally, the Subordinate Voting Shares and the Proportionate Voting Shares have the same rights, are equal in all respects and will be treated by the Issuer as if they were shares of one class only.

### *Conversion Rights*

Each Proportionate Voting Share, including fractions thereof, may at any time, subject to the FPI Condition and Conversion Event (each as defined below), at the option of the holder, be converted into 1,000 Subordinate Voting Shares per Proportionate Voting Share. For the purposes of the foregoing:

“**FPI**” means foreign private issuer” (as determined in accordance with Rule 3b-4 under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”)).

“**FPI Condition**” means such time as when the aggregate number of Subordinate Voting Shares and Proportionate Voting Shares (calculated as a single class) held of record, directly or indirectly, by residents of the United States (as determined in accordance with Rules 3b-4 and 12g3-2(a) under the Exchange Act) exceeds forty percent (40%) of the aggregate number of Subordinate Voting Shares and Proportionate Voting Shares issued and outstanding after giving effect to a conversion of Proportionate Voting Shares (calculated as a single class).

“**Conversion Event**” means such time as when the Board determines that it is no longer advisable to maintain the Proportionate Voting Shares as a separate class of shares and causes all of the issued and outstanding Proportionate Voting Shares to be converted into Subordinate Voting Shares at a ratio of 1,000 Subordinate Voting Shares per Proportionate Voting Share.

The Proportionate Voting Shares are not transferrable without the approval of the Board, except to certain permitted holders and in compliance with U.S. securities laws.

### *Voting Rights*

All holders of Subordinate Voting Shares and Proportionate Voting Shares are entitled to receive notice of any meeting of shareholders of the Issuer, and to attend, vote and speak at such meetings, except those meetings at which only holders of a specific class of shares are entitled to vote separately as a class under the BCBCA. A quorum for the transaction of business at a meeting of shareholders is present if shareholders who, together, hold not fewer than 25% of the votes attaching to the outstanding voting shares entitled to vote at the meeting are present in person or represented by proxy.

On all matters upon which holders of Subordinate Voting Shares and Proportionate Voting Shares are entitled to vote, each Subordinate Voting Share is entitled to one vote per Subordinate Voting Share and each Proportionate Voting Share is entitled to 1,000 votes per Proportionate Voting Share, and each fraction of a Proportionate Voting Share is entitled to the number of votes calculated by multiplying the fraction by 1,000. The number of votes represented by fractional Proportionate Voting Shares will be rounded down to the nearest whole number.

Unless a different majority is required by law or the articles of the Issuer, resolutions to be approved by holders of Subordinate Voting Shares and Proportionate Voting Shares require approval by a simple majority of the total number of votes of all Subordinate Voting Shares and Proportionate Voting Shares cast at a meeting of shareholders at which a quorum is present based on the voting entitlements of each class of Subordinate Voting Shares and Proportionate Voting Shares described above.

### *Dividends*

Holders of Subordinate Voting Shares and Proportionate Voting Shares are entitled to receive dividends out of the assets available for the payment or distribution of dividends at such times and in such amount and form as the Board may from time to time determine, on the following basis, and otherwise without preference or distinction among or between such shares: each Proportionate Voting Share will be entitled to 1,000 times the amount paid or distributed per Subordinate Voting Share (including by way of share dividends, which holders of Proportionate Voting Shares will receive in Proportionate Voting Shares, unless otherwise determined by the Board) and each fraction of a Proportionate Voting Share will be entitled to the applicable fraction thereof.

### *Liquidation Rights*

In the event of the liquidation, dissolution or winding-up of the Issuer or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, whether voluntarily or involuntarily, the holders of Subordinate Voting Shares and Proportionate Voting Shares will be entitled to receive all of the Issuer's assets remaining after payment of all debts and other liabilities, on the basis that each Proportionate Voting Share will be entitled to 1,000 times the amount distributed per Subordinate Voting Share (and each fraction of a Proportionate Voting Share will be entitled to the amount calculated by multiplying the fraction by the amount otherwise payable in respect of a whole Proportionate Voting Share), and otherwise without preference or distinction among or between such shares.

### **Prior Sales**

The following table summarizes issuances of XS securities within the twelve months prior to December 31, 2019.

<b>Date</b>	<b>Type of Security</b>	<b>Number of Securities</b>	<b>Issue/Exercise Price per Security</b>
March 22, 2019	Subscription Receipts	5,415	C\$1,000 per subscription receipt
March 22, 2019	Sub Receipt Broker Warrants	400,000	C\$1.10 per broker warrant
March 22, 2019	Sub Receipt Broker Warrants	344,591	C\$1.10 per broker warrant
March 22, 2019	Sub Receipt Debentures	270	C\$1.10 per debenture
April 12, 2019	Common Shares	620,000	C\$1.10 per share
April 12, 2019	April 2019 Warrants	500,000	C\$1.10 per share
April 26, 2019	Subscription Receipts	467	C\$1.10 per subscription receipt
April 26, 2019	Sub Receipt Debentures	24	C\$1.10 per debenture
April 26, 2019	Sub Receipt Broker Warrants	29,717	C\$1.10 per broker warrant
May 15, 2019	2019 Service Provider Warrants	36,818	C\$1.10 per warrant
May 27, 2019	Common Shares	45,455	C\$1.10 per share
May 31, 2019	Common Shares	92,045	C\$1.10 per share
June 30, 2019	Warrants issuable	150,000	C\$1.10 per share
September 9, 2019	Sub receipt conversion	363,636	C\$1.10 per share
September 9, 2019	Warrants Issued	363,636	C\$1.50 per warrant issued
Sept 14 2019	Conversion of Caracara shares	3,896,958	C\$0.47 per share
Sept 14 2019	Conversion of Series B debentures	4,956,782	C\$0.80 per share
Sept 14 2019	Conversion of Series C debentures	5,452,135	C\$0.94 per share
November 7, 2019	Sub receipt conversion	50,000	C\$1.10 per share
November 7, 2019	Warrants Issued	50,000	C\$1.50 per warrant issued
November 25, 2019	Common Shares	1,475,695	C\$0.20 per share
November 25 2019	Options Granted	1,955,000	C\$0.34 exercise price
November 29, 2019	Debt settlement	727,273	C\$0.20-1.10 per share

### **Stock Exchange Price**

The Subordinate Voting Shares are currently listed and posted for trading on the CSE under the symbol "XSF". The following table shows the price ranges and volume of Subordinate Voting Shares traded during the period commencing on the date of listing on the CSE (September 13, 2019) to December 31, 2019.

Month	High (\$)	Low (\$)	Volume
December 2019	0.30	0.19	397,594
November 2019	0.245	0.17	493,052
October 2019	0.29	0.165	1,111,251
September 2019	0.80	0.22	1,224,597

## 11. ESCROWED SECURITIES

As required under the policies of the CSE, in connection with the completion of the Transaction, the principals of the Issuer entered into an escrow agreement (the “**Escrow Agreement**”) in accordance with the requirements of National Policy 46-201 – *Escrow for Initial Public Offerings* (“**NP 46-201**”). The escrow agent is Odyssey Trust Company. Escrow releases are scheduled at periods specified in NP 46-201 for emerging issuers. The following securities held by the persons set out below were held in escrow as of the closing of the Transaction:

Securityholder	Number and Type of Securities Held in Escrow	Percentage of Class
Archytas Ventures, LLC	11,143.847 (Proportionate Voting Shares)	60.3%

All of the foregoing securities are to be released from escrow based on the following schedule:

Proportion to be Released	Release Date
1/10 <sup>th</sup> of the escrowed shares	September 11, 2019 (the “ <b>Transaction Closing Date</b> ”)
1/6 <sup>th</sup> of the escrowed shares	6 months from the Transaction Closing Date
1/5 <sup>th</sup> of the escrowed shares	12 months from the Transaction Closing Date
1/4 <sup>th</sup> of the escrowed shares	18 months from the Transaction Closing Date
1/3 <sup>rd</sup> of the escrowed shares	24 months from the Transaction Closing Date
1/2 of the escrowed shares	30 months from the Transaction Closing Date
the remaining escrowed shares	36 months from the Transaction Closing Date

In addition, as of December 31, 2019, the following Subordinate Voting Shares and Proportionate Voting Shares are subject to lock-up agreements pursuant to which holders of such shares have agreed, subject to customary carve-outs and exceptions, not to sell any Subordinate Voting Shares or Proportionate Voting Shares, as applicable, held by them until the dates set out below:

Number of Subordinate Voting Shares Held in Escrow	Percentage of Class as of December 31, 2019	Release Date
1,914,164	6.4	29-Feb-2020
3,837,009	12.8	30-Apr-2020
45,455	0.2	31-May-2020
4,657,509	15.5	31-Aug-2020
1,231,000	4.1	31-Dec-2020
1,231,000	4.1	30-Apr-2021
1,287,019	4.3	31-Aug-2021
1,231,000	4.1	31-Dec-2021



<b>Number of Proportionate Voting Shares Held in Escrow</b>	<b>Percentage of Class as of December 31, 2019</b>	<b>Release Date</b>
12,889.834	100%	31-Aug-2022

## 12. PRINCIPAL SHAREHOLDERS

Other than as described below, to the knowledge of XS, no person or company beneficially owns, or controls or directs, directly or indirectly, more than 10% of the voting rights attached to all outstanding Subordinate Voting Shares on an as-converted basis as of December 31, 2019. [NTD: Company to confirm]

<b>Name and Municipality of Residence</b>	<b>Type of Ownership</b>	<b>Number of Subordinate Voting Shares<sup>(3)</sup></b>	<b>% of Subordinate Voting Shares<sup>(2)</sup></b>
Archytas Ventures, LLC <sup>(1)</sup>	Registered	11,143,847	26.22%

(1) Archytas is controlled by David Kivitz and Antony Radbod.

(2) Proportionate Voting Shares shown as converted to Subordinate Voting Shares.

## 13. DIRECTORS AND OFFICERS

The following are summaries of the directors and principal management of the Issuer, including their respective positions with the Issuer and relevant work and educational background. All of the individuals below have entered into consulting and management agreements, which include non-competition and non-disclosure provisions, with XS.

### *Name, Municipality of Residence, Occupation and Security Holdings*

The following table lists the name, municipality of residence, office, principal occupation and the shareholdings of each director and officer of the Issuer as of December 31, 2019.

<b>Name and Municipality of Residence</b>	<b>Current Office</b>	<b>Principal Occupation During the Past Five Years</b>	<b>Shares of the Issuer owned, beneficially held or controlled at December 31, 2019</b>
David Kivitz <sup>(1)</sup> Los Angeles, California	Chief Executive Officer and Director of the Issuer	Former Managing Partner and Co-Founder, Alta Verde Group	11,055,811 <sup>(2)</sup>
Joseph Fazzini Thornhill, Ontario	Chief Financial Officer & Corporate Secretary of the Issuer	Chief Financial Officer & VP Corporate Development, Eastmain Resources (TSX: ER)	150,000 <sup>(3)</sup>

Name and Municipality of Residence	Current Office	Principal Occupation During the Past Five Years	Shares of the Issuer owned, beneficially held or controlled at December 31, 2019
		Former Chief Financial Officer, Toachi Mining Inc. (TSXV: TIM)	
Antony Radbod Los Angeles, California	Chief Operating Officer and Director of the Issuer	Entrepreneur and technology executive; Founder of Nobody Media	<b>11,055,811<sup>(2)</sup></b>
Gary Herman <sup>(1)</sup> New York, New York	Director of the Issuer	Investment Manager	0
Stephen Christoffersen <sup>(1)</sup> Newport Beach, California	Director of the Issuer	Executive Vice President, Kush Co.	0

(1) Member of the Issuer's audit committee.

(2) Securities are held by Archytas which is controlled David Kivitz and Antony Radbod.

(3) Securities are held by Atlas Advisory which is controlled by Joseph Fazzini.

As of December 31, 2019, all directors and officers of the Issuer held an aggregate of 11,205,811 Subordinate Voting Shares, as converted, representing approximately 26.37% of the issued and outstanding Subordinate Voting Shares, as converted, on an undiluted basis.

The term of office of the directors expires annually at the time of the Issuer's annual general meeting or when or until their successor is duly appointed or elected. The term of office of the Issuer's executive officers expires at the discretion of the Issuer's directors. Two of the directors of the Issuer are not independent of the Issuer within the meaning of National Instrument 58-101 *Disclosure of Corporate Governance* ("NI 58-101"). The remaining two directors of the Issuer are considered to be independent within the meaning of NI 58-101.

### ***Board Committees***

The Issuer currently has an audit committee, compensation committee, corporate governance committee and health and safety committee, each as further detailed below.

#### Audit Committee

##### ***Audit Committee Charter***

The Issuer has adopted a written charter setting forth the responsibilities, powers and operations of the audit committee consistent with National Instrument 52-110 – *Audit Committees* ("NI 52-110"). The audit committee assists the Board in fulfilling its responsibilities for oversight of financial and accounting matters. The audit committee reviews the financial reports and other financial information provided by the Issuer to regulatory authorities and its shareholder and reviews the Issuer's system of internal controls regarding finance and accounting including auditing, accounting and financial reporting processes.

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- appoint, compensate, and oversee the work of any registered public accounting firm employed by the Issuer;
- resolve any disagreements between management and the auditor regarding financial reporting;
- pre-approve all audit and non-audit services;
- retain independent counsel, accountants, or others to advise the audit committee or assist in the conduct of an investigation;
- seek any information it requires from employees; and
- meet with the Issuer’s officers, external auditors, or outside counsel, as necessary.

### ***Composition of the Audit Committee***

The members of the audit committee of the Issuer are as set out below. Also indicated is whether they are “independent” and “financially literate” within the meaning of National Instrument 52-110 – *Audit Committees* (“NI 52-110”).

<b>Name of Member</b>	<b>Independent<sup>(1)</sup></b>	<b>Financially Literate<sup>(2)</sup></b>
Gary Herman (chair)	Yes	Yes
Stephen Christoffersen	Yes	Yes
David Kivitz	No	Yes

(1) A member of the audit committee is independent if he or she has no direct or indirect ‘material relationship’ with the Issuer. A material relationship is a relationship which could, in view of the Board, reasonably interfere with the exercise of a member’s independent judgment. An executive officer of the Issuer, such as the President or Secretary, is deemed to have a material relationship with the Issuer.

(2) A member of the audit committee is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Issuer’s financial statements.

XS believes the composition of the Issuer’s audit committee reflects a high level of financial literacy and expertise. Each member of the audit committee is “financially literate” within the meaning of applicable Canadian securities laws based on each member's education and experience. As at the date hereof, two existing members are considered “independent” for the purposes of NI 52-110.

### **Relevant Education and Experience**

#### **David Kivitz**

Mr. Kivitz brings over 17 years of investment and operations experience in high growth businesses. He was previously a Managing Partner at the Alta Verde Group, a company he co-founded to acquire distressed real estate assets resulting from U.S. the housing market crash in 2008. Mr. Kivitz successfully grew the Alta Verde Group to over US\$50 million in annual sales and in 2015 it was recognized as the #3 Fastest Growing Private Company in Los Angeles by The LA Business Journal. During his tenure at the Alta Verde Group, Mr. Kivitz also structured and closed in excess of US\$250 million of land financing, debt, and equity to achieve scale for the company. Mr. Kivitz received a Bachelor of Business Administration with a concentration in Finance from the George Washington University.

### **Stephen Christoffersen**

Stephen Christoffersen has 15 years of global capital markets and executive management experience. He currently serves as Executive Vice President of KushCo., an internationally recognized producer of ancillary products for global Cannabis space. Prior to joining KushCo. Mr. Christoffersen managed a US\$500MM equity portfolio for a large bank and advised on M&A and fundraising initiatives for seed and growth stage companies. He received his Chartered Financial Analyst designation in 2015 and holds a B.S in Finance from UNLV.

### **Gary Herman**

Mr. Herman has been a director of XS since May 2019. Since 2005, Mr. Herman has managed Strategic Turnaround Equity Partners, LP (Cayman) and its affiliates. From January 2011 to August 2013, he was a managing member of Abacoa Capital Management, LLC, which managed, Abacoa Capital Master Fund, Ltd. focused on a Global-Macro investment strategy. Since 2005, Mr. Herman has been a registered representative with Arcadia Securities LLC, a FINRA-registered broker-dealer based in New York. From 1997 to 2002, he was an investment banker with Burnham Securities, Inc. From 1993 to 1997, he was a managing partner of Kingshill Group, Inc., a merchant banking and financial firm. Mr. Herman has many years of investment experience as well as serving on the boards of public and private companies. Mr. Herman has a B.S. from the University at Albany with a major in Political Science and minors in Business and Music.

#### Audit Committee Oversight

At no time since the commencement of the Issuer’s most recently completed financial year, was a recommendation of the audit committee to nominate or compensate an external auditor not adopted by the Board.

#### ***Reliance on Certain Exemptions***

At no time since the commencement of the Issuer’s most recently completed financial year has it relied on the exemption in section 2.4 of NI 52-110 (*De Minimis* Non-Audit Services), or an exemption from NI 52-110, in whole or in part, granted by the securities regulatory authority under Part 8 of NI 52-110 (Exemptions).

#### ***Pre-Approval Policies and Procedures***

The Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services other than the general requirements under the heading “Authority” of the Audit Committee Charter which states that the Audit Committee must pre-approve any non-audit services.

#### ***External Auditor Service Fees (By Category)***

The aggregate fees billed by the Issuer’s external auditors for the fiscal years ended December 31, 2019 and June 30, 2018, for audit and non-audit related services, are as follows:

<b>Financial Year</b>	<b>Audit fees (C\$)</b>	<b>Audit-Related Fees (C\$)</b>	<b>Tax Fees (C\$)</b>	<b>All Other Fees (\$)</b>

Fiscal year ended June 30, 2018	\$70,950	\$330	\$1,750	Nil
Fiscal year ended December 31, 2019	\$35,000	\$150,000 <sup>1</sup>	Nil	Nil

<sup>1</sup> *Audit-related pertained to work performed in relation to RTO transaction including listing statement*

### ***Exemption***

As a venture issuer within the meaning of NI 52-110, the Issuer is relying upon the exemption provided by section 6.1 of NI 52-110, which exempts venture issuers from the requirements of Part 3, *Composition of the Audit Committee* and Part 5, *Reporting Obligations* of NI 52-110.

### **Other Committees**

The Board has established a Compensation Committee which reviews on an annual basis the adequacy and form of compensation of executive officers and directors to ensure that their compensation reflects the responsibilities, time commitment and risks involved in being an effective officer and/or director. Currently, the directors of the Issuer do not receive any fees in their capacities as directors. All directors are eligible to participate in the Omnibus Incentive Plan.

The Board has also established a Corporate Governance Committee. The purpose of the Corporate Governance Committee is to assist the Board in (i) establishing the Issuer's corporate governance policies and practices generally; (ii) reviewing the effectiveness of the Board and its committees; and (iii) promoting a culture of integrity throughout the Issuer. The Committee is also responsible for (i) monitoring the appropriateness of structures to ensure that the Board can function independently of the senior officers of the Issuer; (ii) providing an orientation and education program for new directors; and (iii) monitoring and, when appropriate, making recommendations to the Board concerning the corporate governance of the Issuer including assessing the Issuer's corporate governance policies and practices, evaluating the functioning of the Board, its committees and individual directors and approving the annual disclosure of the Issuer's corporate governance practices.

The Board has also established a Health and Safety Committee to assist the Board in (i) monitoring health and safety matters in the workplace, and the rights and duties of the Issuer and its employees in that respect; and (ii) establishing procedures for dealing with workplace hazards, and monitoring related compliance matters.

### ***Cease Trade Orders***

To XS' knowledge, no director of the Issuer is, as at December 31, 2019, or has been within 10 years before such date, a director, chief executive officer or chief financial officer of any company (including XS) that:

- (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days and that was issued while such individual was acting in the capacity as director, chief executive officer or chief financial officer; or

- (b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after such individual ceased to be a director, chief executive officer or chief financial officer, and which resulted from an event that occurred while such individual was acting in the capacity as director, chief executive officer or chief financial officer.

### ***Bankruptcies***

To XS 's knowledge, no individual set forth in the above table or shareholder holding a sufficient number of securities of XS to affect materially the control of XS, nor any personal holding company of any such individual:

- (a) is, as of December 31, 2019, or has been within 10 years before such date, a director or executive officer of any company (including XS) that, while such individual was acting in that capacity, or within a year of such individual ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the 10 years before December 31, 2019, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such individual; or
- (c) has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority, or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### ***Penalties or Sanctions***

As December 31, 2019, to the knowledge of the Issuer, no director, officer, insider or promoter of the Issuer or a shareholder holding a sufficient number of securities of the Issuer to affect materially the control of the Issuer had been subject to any penalties or sanctions imposed by a court relating to securities legislation or by any securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or had been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that would be likely to be considered important to a reasonable investor making an investment decision.

### ***Conflicts of Interest***

From time to time, the directors and officers of the Issuer may serve as directors, officers, and members of management of other public companies, including companies in which the Issuer has investments, and may also be shareholders of such companies, and therefore it is possible that a conflict may arise between their duties as a director, officer, or member of management of such other companies, or their interests as a shareholder of such other companies, and as a director or officer of the Issuer.

The directors of the Issuer are aware of the existence of laws governing accountability of directors and officers for corporate opportunities and requiring disclosures by directors and officers of conflicts of interest, and in the case of directors, requiring them to abstain from voting on matters in respect of which they have a conflict of interest. The Issuer relies upon each director and officer to comply with such laws in respect of conflicts of interest and fiduciary duties.

### ***Management of the Issuer***

A brief description of the biographies for all of the officers and directors of the Issuer are set out below.

#### *David Kivitz, President, Chief Executive Officer and Director*

Mr. Kivitz brings over 17 years of investment and operations experience in high growth businesses. He was previously a Managing Partner at the Alta Verde Group, a company he co-founded to acquire distressed real estate assets resulting from U.S. the housing market crash in 2008. Mr. Kivitz successfully grew the Alta Verde Group to over US\$50 million in annual sales and in 2015 it was recognized as the #3 Fastest Growing Private Company in Los Angeles by The LA Business Journal. During his tenure at the Alta Verde Group, Mr. Kivitz also structured and closed in excess of US\$250 million of land financing, debt, and equity to achieve scale for the company.

#### *Joseph Fazzini, Chief Financial Officer*

Mr. Fazzini brings over 15 years of capital markets, finance and corporate management experience. With an in-depth background in equity analysis, investment valuation and project finance, Mr. Fazzini currently serves as Chief Financial Officer of Eastmain Resources Inc. and previously served as Chief Financial Officer of for Toachi Mining Inc prior to its acquisition in September 2019. Previously, Mr. Fazzini was employed by Dundee Capital Markets as Vice President and Senior Mining Analyst covering global Precious Metal Equities. As a ranked equity analyst, Mr. Fazzini provided investment advisory to global institutions and investment funds. Mr. Fazzini is a holder of the Chartered Financial Analyst, Chartered Accountant and Certified Public Accountant designations. Mr. Fazzini graduated from the University of Toronto's Rotman School of Management with a Bachelor of Commerce

#### *Antony Radbod, Chief Operating Officer and Director*

Mr. Radbod was a former marketing executive-turned-entrepreneur responsible for launching a series of successful start-ups since 2010. Strategies he crafted while overseeing operations of those companies grew aggregate revenue from \$0 to over US\$260M. The companies Mr. Radbod co-founded include a wide swath of the corporate and technology landscape: digital content marketing, real estate development, SaaS technologies and growth consulting for emerging markets. Acquired in 2015, his digital content agency further refined unique digital marketing strategies he developed while working with Fortune 100 brands, government agencies (foreign and domestic) and non-profits.



**14. CAPITALIZATION***Issued Capital at December 31, 2019*

[NTD: Company to populate tables below as of December 31, 2019]

	<b>Number of Securities (non-diluted)</b>	<b>Number of Securities (fully- diluted)</b>	<b>% of Issued (non- diluted)</b>	<b>% of Issued (fully diluted)</b>
<u>Public Float</u>				
Total outstanding (A)	42,494,062	56,658,622	100%	100%
Held by Related Persons or employees of the Issuer or Related Person of the Issuer, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer upon exercise or conversion of other securities held) (B)	11,205,811	12,480,811	26.37%	22.03%
Total Public Float (A-B)	31,288,251	44,177,811	73.63%	77.97%
<u>Freely-Tradeable Float</u>				
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C)	12,507,298		29.43%	0
Total Tradeable Float (A-C)	18,780,953	44,177,811	44.20%	77.97%



Non-Public Securityholders (Registered)**Class of Security**

<u>Size of Holding</u>	<u>Number of holders</u>	<u>Total number of securities</u>
1 – 99 securities	<u>Nil</u>	<u>Nil</u>
100 – 499 securities	<u>Nil</u>	<u>Nil</u>
500 – 999 securities	<u>Nil</u>	<u>Nil</u>
1,000 – 1,999 securities	<u>Nil</u>	<u>Nil</u>
2,000 – 2,999 securities	<u>Nil</u>	<u>Nil</u>
3,000 – 3,999 securities	<u>Nil</u>	<u>Nil</u>
4,000 – 4,999 securities	<u>Nil</u>	<u>Nil</u>
5,000 or more securities		

**14.2 Convertible/Exchangeable Securities**

The following table sets out the number of convertible securities of the Issuer as of December 31, 2019:

<b>Designation of Securities</b>	<b>Number of Underlying Subordinate Voting Shares</b>	<b>Percentage (Fully Diluted)</b>
Proportionate Voting Shares <sup>(1)</sup>	12,507,298	29.43%
Stock Purchase Options	5,697,652	13.40%
Warrants	8,466,908	19.92%
<b>Total Convertible Securities</b>		

Notes:

(1) Convertible into Subordinate Voting Shares at a ratio of 1,000 Subordinate Voting Shares per Proportionate Voting Share.

**15. EXECUTIVE COMPENSATION**

The following table provides a summary of compensation for services rendered in all capacities to the Issuer for the fiscal years ended December 31, 2018 and 2019 in respect of (I) the following individuals (the “**Named Executive Officers**”): (i) David Kivitz, the Chief Executive Officer and director of the Issuer; (ii) Joseph Fazzini, the Chief Financial Officer and Corporate Secretary of the Issuer; and (iii) the three most highly compensated individuals of the Issuer whose total compensation was, individually, more than C\$150,000 for the financial year ended December 31, 2019; and (II) each of the directors of the Issuer. See

also “Stock Options and Other Compensation Securities” below. The Issuer had no other executive officers whose total compensation during the fiscal year ended December 31, 2019 exceeded \$150,000.

### Table of Compensation Excluding Compensation Securities

Name and Position	Fiscal Year	Salary, Consulting Fee, Retainer or Commission	Bonus	Committee or Meeting Fees	Value of Perquisites	Value of All Other Compensation	Total Compensation
David Kivitz, Chief Executive Officer and Director	2019	US\$172,000	Nil	Nil	Nil	Nil	US\$172,000
	2018	US\$134,400	Nil	Nil	Nil	US\$9,208	US\$143,608
Joseph Fazzini, Chief Financial Officer and Corporate Secretary <sup>(1)</sup>	2019	US\$77,369	Nil	Nil	Nil	Nil	\$100,000
	2018	Nil	Nil	Nil	Nil	Nil	Nil
Antony Radbod, Chief Marketing Officer and Director	2019	US\$172,000	Nil	Nil	Nil	Nil	US\$172,000
	2018	US\$100,939	Nil	Nil	Nil	US\$9,264	US\$110,203
Stephen Christoffersen, Director	2019	Nil	Nil	Nil	Nil	Nil	Nil
	2018	Nil	Nil	Nil	Nil	Nil	Nil
Gary Herman, Director	2019	Nil	Nil	Nil	Nil	Nil	Nil
	2018	Nil	Nil	Nil	Nil	Nil	Nil

(1) Mr. Fazzini was appointed in May 2019 and thus, received no compensation in 2018.

(2) Messrs. Kivitz and Radbod are compensated through a master services agreement between the Issuer and Archytas. See “Employment, Termination and Change of Control Benefits” below. Amounts for fiscal 2018 represent fees paid by Archytas Subco for the fiscal year of Archytas Subco ended December 31, 2018.

### Stock Options and Other Compensation Securities

Set forth in the table below is a summary of all compensation securities granted or issued to each Named Executive Officer and director of the Issuer during the fiscal years ended June 30, 2018 and December 31, 2019.

Compensation Securities							
Name and Position	Type of Compensation Security	Number of Compensation Securities	Date of Issue or Grant	Issue, Conversion or Exercise Price	Closing Price of Security or Underlying Security on Date of Grant	Closing Price of Security at Year End Following Grant Date	Expiry Date
Joseph Fazzini <sup>(1)</sup> , Chief Financial Officer and Corporate Secretary	Stock Options	500,000	November 15, 2019	\$0.34	\$0.19	\$0.27	November 15, 2024
Gary Herman <sup>(2)</sup> , Director	Stock Options	300,000	November 15, 2019	\$0.34	\$0.19	\$0.27	November 15, 2024
Stephen Christoffersen <sup>(3)</sup> , Director	Stock Options	300,000	November 15, 2019	\$0.34	\$0.19	\$0.27	November 15, 2024

Note(s):

- (1) As of December 31, 2019, Mr. Fazzini held an aggregate of 500,000 stock options, each entitling him to acquire one Subordinate Voting Share in accordance with the terms and conditions thereof (nil as of December 31, 2018).
- (1) As of December 31, 2019, Mr. Herman held an aggregate of 300,000 stock options, each entitling him to acquire one Subordinate Voting Share in accordance with the terms and conditions thereof (nil as of December 31, 2018).
- (1) As of December 31, 2019, Mr. Christoffersen held an aggregate of 300,000 stock options, each entitling him to acquire one Subordinate Voting Share in accordance with the terms and conditions thereof (nil as of December 31, 2018).

### Exercise of Compensation Securities by Directors and Named Executive Officers

No compensation securities were exercised by any Named Executive Officers or directors of the Issuer during the fiscal year ended December 31, 2019.

For further details on the Omnibus Incentive Plan, please refer to Item 9 above.

### COMPENSATION DISCUSSION AND ANALYSIS

The Issuer's approach to executive compensation has been to provide suitable compensation for executives that is internally equitable, externally competitive and reflects individual achievement. The Issuer attempts to maintain compensation arrangements that will attract and retain highly qualified individuals who are able and capable of carrying out the objectives of the Issuer. The Issuer's compensation arrangements for the Named Executive Officers may, in addition to salary, include compensation in the form of bonuses and, over a longer term, benefits arising from the grant of stock options. Given the stage of development of the Issuer, compensation of the Named Executive Officers currently emphasizes base salaries and bonuses, with a reduced reliance on option awards. This policy may be re-evaluated in the future depending upon the future development of the Issuer and other factors which may be considered relevant by the board of directors from time to time.

In respect of the financial year ended December 31, 2019: (i) a salary of \$172,000 USD was paid in respect of the services of the Chief Executive Officer of the Issuer; (ii) a salary of \$100,000 CAD was paid in respect of the services of the Chief Financial Officer of the Issuer; and (iii) a salary of \$172,000 USD was paid in respect of the services of the COO of the Issuer. The Issuer has established a Compensation Committee which establishes and reviews the Issuer's overall compensation philosophy and its general compensation policies with respect to executive officers, including the corporate goals and objectives and

the annual performance objectives relevant to such officers. The Compensation Committee evaluates each officer's performance in light these goals and objectives and, based on its evaluation, determines and approves the salary, bonus, options and other benefits for such officers. In determining compensation matters, the Compensation Committee and the board of directors may consider a number of factors, including the Issuer's performance, the value of similar incentive awards to officers performing similar functions at comparable companies, the awards given in past years and other factors it considers relevant. The current overall objective of the Issuer's compensation strategy is to reward management for their efforts, while seeking to conserve cash given current market conditions.

With respect to any bonuses or incentive plan grants which may be awarded to executive officers in the future, the Issuer has not currently set any objective criteria and will instead rely upon any recommendations and discussion at the Compensation Committee level with respect to the above-noted considerations and any other matters which the Compensation Committee and Board may consider relevant on a going-forward basis, including the cash position of the Issuer. See also "Employment, Termination and Change of Control Benefits" below. Any existing options held by the Named Executive Officers at the time of subsequent option grants are taken into consideration in determining the quantum or terms of any such subsequent option grants. Options have been granted to directors, management, employees and certain service providers as long-term incentives to align the individual's interests with those of the Issuer. The size of the option awards is in proportion to the deemed ability of the individual to make an impact on the Issuer's success.

#### *Compensation of Directors*

Directors of the Issuer that are not also executive officers of the Issuer are not currently paid any fee in respect of the attendance at directors' and shareholder's meetings. Directors are eligible to participate in the Omnibus Incentive Plan. Directors may also be compensated for services provided to the Issuer as consultants or experts on the same basis and at the same rate as would be payable if such services were provided by a third party, arm's length service provider. No such services were provided to the Issuer by any of its directors other than Named Executive Officers during fiscal 2019. As of December 31, 2019, the Issuer had an aggregate of 3,010,129 outstanding options, of which 850,000 were issued to directors.

#### *Incentive Plan Awards – Retirement and Pension Benefit Plans*

The Issuer does not provide retirement or pension benefits for directors or executive officers.

#### *Employment, Termination and Change of Control Benefits*

David Kivitz (Chief Executive Officer of XS) and Antony Radbod (Chief Marketing Officer of XS XS) render their services to XS through an amended and restated master services agreement entered into between XS and Archytas dated March 20, 2019 as amended on June 18, 2019 and effective January 1, 2019 (the "**Amended MSA**") and Joseph Fazzini (Chief Financial Officer and Corporate Secretary of XS) renders his services to XS under a consulting agreement. Further details of such agreements are set out below.

#### **David Kivitz, Chief Executive Officer**

The Amended MSA requires that XS compensate Archytas for work completed by David Kivitz, a consultant of Archytas. In addition, the Amended MSA entitles Mr. Kivitz to participate in XS' benefit plans and programs including but not limited to its life and disability insurance program, health, medical, dental and vision plans and pension plans. Pursuant to the Amended MSA, the employment agreement

entered into between Mr. Kivitz and XS on August 1, 2018 (the “**Kivitz Employment Agreement**”) terminated as of January 1, 2019. The initial grant of options to purchase 100,000 of XS’ class B common stock awarded to Mr. Kivitz under the Kivitz Employment Agreement was subsequently assigned to Archytas pursuant to the Amended MSA. The term of Amended MSA shall remain in effect for an initial term of five years and shall be extended automatically for successive one-year periods unless terminated pursuant to the agreement. Involuntary termination of the Amended MSA can only occur once Archytas’ ownership represents less than 5% of the fully diluted shares of XS.

In consideration for the services provided and per the terms of the Amended MSA, XS has agreed to pay fees to Archytas of US\$28,666.76 per month. This fee is inclusive of the services provided by both Mr. Kivitz and Mr. Radbod. In the event that the Archytas performs services which result in the acquisition or merger of another entity, Archytas shall be entitled to an acquisition success premium equivalent to 2% of the acquisition or merger partner enterprise value, net of any third party broker fees. In the event that the Archytas performs services which result in a change of control or other material transaction, Archytas shall be entitled to an exit success premium equivalent to 2% of the enterprise valuation on exit, net of any third party broker fees.

In the event of a termination of the Amended MSA as a result of a change of control, Archytas is entitled to payment equal to 24 months of the base fee of US\$28,666.76 per month.

#### **Joseph Fazzini, Chief Financial Officer**

XS entered into a consulting agreement dated June 30, 2019 (the “**Atlas Consulting Agreement**”) providing for Mr. Fazzini’s services as Chief Financial Officer of the Issuer, which provides that the Issuer is to pay a consulting fee of CAD\$168,000 per year payable in equal monthly installments, subject to annual review by the Board, and provides that Atlas Advisory Inc. (“**Atlas**”) is eligible for discretionary bonuses. In addition, the Issuer agrees to reimburse Atlas for reasonable out-of-pocket expenses incurred from time to time. The Atlas Consulting Agreement may be terminated (i) by the Issuer for cause or material breach by the consultant; (ii) by the Issuer or Atlas without cause, with 90 days’ notice; or (iii) due to material breach by XS. In the event of material breach by XS, XS will pay to Atlas an amount equal to the lesser of 24 months’ base fees or 0.5% of the XS enterprise value on exit.

#### **Antony Radbod, Chief Operating Officer**

The Amended MSA, among other things, provides for payment by XS to Archytas for work completed. In addition, the Amended MSA entitles Mr. Radbod to participate in XS’ benefit plans and programs including but not limited to its life and disability insurance program, health, medical, dental and vision plans and pension plans. Pursuant to the Amended MSA, the employment agreement entered into between Mr. Radbod and XS on August 1, 2018 (the “**Radbod Employment Agreement**”) terminated as of January 1, 2019. The initial grant of options to purchase 100,000 of XS’ class B common stock awarded to Mr. Radbod under the Radbod Employment Agreement was subsequently assigned to Archytas pursuant to the Amended MSA.

In consideration for the services provided and per the terms of the Amended MSA, XS agrees to pay fees to Archytas of US\$28,666.76 per month. This fee is inclusive of the services provided by both Mr. Kivitz and Mr. Radbod. In the event that the Archytas performs services which result in the acquisition or merger of another entity, Archytas shall be entitled to an acquisition success premium equivalent to 2% of the acquisition or merger partner enterprise value, net of any third party broker fees. In the event that the Archytas performs services which result in a change of control or other material transaction, Archytas shall

be entitled to an exit success premium equivalent to 2% of the enterprise valuation on exit, net of any third party broker fees.

The term of Amended MSA shall remain in effect for an initial term of five years and shall be extended automatically for successive one-year periods unless terminated pursuant to the agreement. Involuntary termination of the Amended MSA can only occur once Archytas' ownership represents less than 5% of the fully diluted shares of XS.

In the event of a termination of the Amended MSA as a result of a change of control, Archytas is entitled to payment equal to 24 months of the base fee of US\$28,666.76 per month.

## **16. INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

None of the directors or officers of the Issuer, nor any of their Associates, are currently or have been indebted to the Issuer since the commencement of the most recently completed fiscal year, nor has any indebtedness of any of these individuals or Associates to another entity be the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Issuer during such period

## **17. RISK FACTORS**

### *Credit Risks May Lead to Unexpected Losses*

The Issuer's net receivables exposes the Issuer to credit risk. Credit risk is the risk that the Issuer incurs an unexpected loss because its customers and counterparties fail to discharge their contractual obligations. Credit risk arises principally through the Issuer's net receivables that are a result of transactions within the industry and, as such, contain an element of credit risk in the event that obligors are unable to meet the terms of their agreements. The Issuer is exposed to credit risk as it arises from events and circumstances outside of the Issuer's control relating to adverse economic conditions, business failure or fraud. Types of fraud to which the Issuer is exposed generally fall into one of three primary categories: (i) vendor/dealer fraud; (ii) customer fraud; and (iii) employee fraud. Excessive credit losses could adversely affect the Issuer's ability to generate and fund new deals.

### *Concentration of Agreements to Small and Mid-Sized Companies May Carry More Inherent Risks*

The Issuer's portfolio includes agreements with small and medium-sized, privately-owned companies, most of which do not publicly report their financial condition. Compared to larger, publicly-traded firms, agreements with these types of companies may carry more inherent risk. The companies that the Issuer transacts with generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Additionally, because most of the Issuer's customers do not publicly report their financial condition, the Issuer is more susceptible to a customer's fraud, which could cause the Issuer to suffer losses on its portfolio. The failure of a customer to accurately report its financial position could result in the Issuer providing Equipment Leasing and Ancillary Services that do not meet its underwriting criteria, defaults in payments, the loss of some or all of the principal of a particular agreement or non-compliance with contractual obligations. Accordingly, agreements made with these types of customers involve higher risks than those made with companies that have larger businesses, greater financial resources or are otherwise able to access traditional finance sources. Numerous factors may make these types of companies more vulnerable to variations in results of operations, changes impacting their industry and changes in general market conditions.



*Concentration of Agreements Within a Particular Industry or Region May Negatively Impact the Issuer's Financial Condition*

The Issuer currently specializes in the cannabis industry. As a result, the Issuer's portfolio currently has and may develop other concentrations of risk exposure related to this sole industry. If this industry segment in which the Issuer has a concentration of investments experiences adverse economic or business conditions, the Issuer's delinquencies, default rate and charge-offs in those segments may increase, which may negatively impact its financial condition and results of operations.

*The Issuer's Provision for Credit Losses May Prove Inadequate*

The Issuer's business depends on the creditworthiness of its customers and their ability to fulfill their obligations to the Issuer. The Issuer maintains a provision for credit losses that reflects management's judgment of losses inherent in the portfolio. The Issuer periodically reviews its provision for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans, past due loan migration trends, and non-performing assets.

The Issuer's provision for credit losses may prove inadequate and the Issuer cannot assure that it will be adequate over time to cover credit losses in the Issuer's portfolio because of adverse changes in the economy or events adversely affecting specific customers, industries or markets. The Issuer reserves may not keep pace with changes in the creditworthiness of the Issuer's customers or in collateral values. If the credit quality of the Issuer's customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, or if the markets for equipment, or other collateral deteriorates significantly, any or all of which would adversely affect the adequacy of the Issuer's reserves for credit losses, it could have a material adverse effect on the Issuer's business, results of operations, and financial position.

*The Collateral Securing an Equipment Lease May Not Be Sufficient*

While most of the Issuer's equipment leases are secured by a lien on specified collateral of the customer, there is no assurance that the Issuer's has obtained or properly perfected its liens, or that the value of the collateral securing any particular equipment lease will protect the Issuer's from suffering a partial or complete loss if the equipment lease becomes non-performing and the Issuer's moves to foreclose on the collateral. In such event, the Issuer could suffer lease losses which could have a material adverse effect on its revenue, net income, financial condition and results of operations.

*Reliance on Key Suppliers*

The Issuer currently relies on several key suppliers to provide it with equipment that it sells or leases to its customers. These suppliers may elect, at any time, to breach or otherwise cease to participate in supply agreements, or other relationships, on which Issuer's operations rely. Loss of its suppliers would have a material adverse effect on Issuer's business and operational results. In addition, any act, omission or occurrence which adversely effects the equipment provided by such supplier may have a commensurate impact on Issuer. While the Issuer plans on entering into agreements with additional suppliers to diversify its future offering, there can be no assurances that such relationships will be formed.

### *Key Officers and Employees*

The Issuer's success and future depends, to a significant degree, on the continued efforts of its directors, officers and key employees. The loss of key personnel could materially adversely affect the Issuer's business. The loss of any such personnel could harm or delay the plans of the Issuer's business either while management time is directed to finding suitable replacements (who, in any event, may not be available), or, if not, covering such vacancy until suitable replacements can be found. In either case, this may have a material adverse effect on the future of the Issuer's business.

Competition for such personnel can be intense, and the Issuer cannot provide assurance that it will be able to attract or retain highly qualified technical, sales, marketing and management personnel in the future. From time to time, share-based compensation may comprise a significant component of the Issuer's compensation for key personnel, and if the price of the Subordinate Voting Shares declines, it may be difficult to recruit and retain such individuals.

### *Customer Concentration*

As of the date hereof, the Issuer's revenue is derived almost exclusively from services provided to a small number of customers. A loss of any such customer would have a negative impact on the Issuer's revenue. While the Issuer plans on expanding and diversifying its customer base, there can be no assurances that such goals will be achieved.

### *Concentration of Voting Control*

As a result of the number of voting securities of XS which are held by Archytas which is controlled by David Kivitz and Antony Radbod, Archytas exercises approximately 26% of the voting power in respect of the Subordinate Voting Shares. As a result, Archytas has significant influence on the outcome of all matters submitted to the Issuer's shareholders for approval, including the election and removal of directors and any arrangement or sale of all or substantially all of the assets of the Issuer.

If the Amended MSA is terminated, Archytas will continue to have the ability to exercise the same significant voting power.

The concentrated ownership position through the Subordinate Voting Shares provides some ability to delay, defer, or prevent a change of control of the Issuer, arrangement involving the Issuer or sale of all or substantially all of the assets of the Issuer that its other shareholders support. In addition, Archytas may make long-term strategic investment decisions and take risks that may not be successful and may seriously harm the Issuer's business.

Through the Amended MSA, each of Messrs. Kivitz and Radbod exercise control over the day-to-day management and the implementation of major strategic decisions of the Issuer, subject to authorization and oversight by the Board. As Board members, they will owe a fiduciary duty to the Issuer's shareholders and are obligated to act honestly and in good faith with a view to the best interests of the Issuer. As shareholders, even controlling shareholders, Archytas will be entitled to vote its shares, and shares over which it has voting control, in its own interests, which may not always be in the interests of the Issuer or the other shareholders of the Issuer.

### *Foreign Private Issuer Status*

The Issuer is designated as a Foreign Private Issuer as defined in Rule 405 under the *United States Securities Act of 1933*, as amended (the “**1933 Act**”) and Rule 3b-4 under the Exchange Act. The term “Foreign Private Issuer” is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions: (i) more than 50 percent of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the United States; and (ii) any one of the following: (A) the majority of the executive officers or directors are United States citizens or residents, or (B) more than 50 percent of the assets of the issuer are located in the United States, or (C) the business of the issuer is administered principally in the United States. A “holder of record” is defined by Rule 12g5-1 under the Exchange Act. Generally speaking, the holder identified on the record of security holders is considered as the record holder.

In December 2016, the Securities and Exchange Commission (“**SEC**”) issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, the Issuer became a “Foreign Private Issuer” upon completion of the Transaction. Should the SEC’s guidance and interpretation change, there is a risk that the Issuer may lose its Foreign Private Issuer status.

Further, if more than 50% of the Issuer’s outstanding voting securities (as determined under Rule 405 of the 1933 Act) are directly or indirectly held of record by residents of the United States, the Issuer will no longer meet the definition of a Foreign Private Issuer, which may have adverse consequences on the Issuer’s ability to raise capital in private placements or Canadian prospectus offerings. In addition the loss of the Issuer’s Foreign Private Issuer status may likely result in increased reporting requirements and increased audit, legal and administration costs.

### *Additional Financing*

The Issuer will require equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. Historically, XS has been successful in obtaining enough funding for operating and capital requirements. However, there can be no assurance that additional financing will be available to the Issuer when needed or on terms which are acceptable. The Issuer’s inability to raise financing to fund on-going operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Issuer’s business, results of operations, financial condition or prospects.

If additional funds are raised through further issuances of equity, warrants or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Subordinate Voting Shares.

Depending on the availability of traditional banking services to the Issuer, the Issuer may enter into one or more credit facilities with one or more lenders in order to finance the operations of the Issuer’s business. It is anticipated that any such credit facility will contain a number of common covenants that, among other things, might restrict the ability of the Issuer to: (i) acquire or dispose of assets or businesses; (ii) incur additional indebtedness; (iii) make capital expenditures; (iv) make cash distributions; (v) create liens on assets; (vi) enter into leases, investments or acquisitions; (vii) engage in mergers or consolidations; or (viii) engage in certain transactions with affiliates, and otherwise restrict activities of the Issuer (including its ability to acquire additional investments, businesses or assets, certain changes of control and asset sale

transactions) without the consent of the lenders. In addition, such a credit facility would likely require the Issuer to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. Such restrictions may limit the Issuer's ability to meet targeted returns and reduce the amount of cash available for investment. Moreover, the Issuer may incur indebtedness under credit facilities that bear interest at a variable rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable rate debt and could reduce the amount of cash available for various purposes.

#### *Limited Operating History*

XS has a brief operating history. As a result, XS has a limited operating history upon which to base an evaluation of its business and prospects. XS' prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stage of development, such as operating losses, limited access to capital and issues relating to management of growth. XS may not be successful in addressing these risks and uncertainties and its failure to do so could have a material adverse effect on its business, financial condition and operating results.

#### *Competition*

The Issuer faces significant competition from other companies, some of which have longer operating histories and more financial resources and experience than the Issuer. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition, results of operations or prospects of the Issuer.

Because of the early stage of the industry in which the Issuer operates, the Issuer also expects to face additional competition from new entrants. To become and remain competitive, the Issuer will require research and development, marketing, sales and support. The Issuer may not have sufficient resources to maintain research and development, marketing, sales and support efforts on a competitive basis which could materially and adversely affect the business, financial condition, results of operations or prospects of the Issuer.

#### *Litigation*

The Issuer may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Issuer becomes involved be determined against the Issuer, such a decision could adversely affect the Issuer's ability to continue operating and the market price for the Subordinate Voting Shares. Even if the Issuer is involved in litigation and wins, litigation can redirect significant company resources.

#### *Proceeds from a prior offering are potentially subject to forfeiture.*

XS was made aware in early 2019 that a portion of the funds that a shareholder of XS had invested in XS could be subject to forfeiture to the United States of America on account of a forfeiture judgment against the shareholder's immediate family member. The shareholder's initial investment included (i) a \$50,000 capital contribution made by the shareholder to XS on or about October 30, 2017, and (ii) a \$950,000 loan by the shareholder to XS ("**\$950K Loan**") which was subsequently converted to equity of XS on July 16, 2018.

XS was advised in early 2019 that \$650,000 ("**Forfeiture Amount**") of the funds used by the shareholder to make the \$950K Loan were provided to the stockholder by a member of her immediate family who is subject to a forfeiture judgment in favor of the United States of America (the "**Forfeiture Matter**"). As a

result of the forfeiture judgment, the Forfeiture Amount could be subject to forfeiture. While XS was not aware of this issue prior to receiving the shareholder's initial investment in XS, XS' legal counsel has advised that the U.S. government may seek the return of the Forfeiture Amount from XS, together with interest and penalties. XS intends to comply with all requests made by the relevant authorities.

In order to mitigate any potential action by the U.S. government, \$650,000 in cash belonging to the stockholder is currently being held in a separate bank account controlled by Archytas in order to repay the Forfeiture Amount on behalf of the stockholder. In the event that XS is required to make any payment or incurs any related expense or liability in excess of the Forfeiture Amount, XS will seek to recover any such amounts from the stockholder.

In cooperation with the shareholder, XS has collected \$650,000 from the shareholder and is currently holding the funds in escrow on behalf of the investor to settle the Forfeiture Amount, if required.

#### *Equipment Failures and Performance*

XS relies on third party manufacturers for its Equipment Leasing. From time to time, such equipment may not perform to specifications or to XS' customers satisfaction. Such equipment deficiencies may lead to down time impacting XS' revenue. Further, frequent downtime at customers' sites due to equipment failures may result in such customers generating less revenue increasing credit default risk. In addition, these failures may also result in additional time spent by XS personnel decreasing profit margins on certain ancillary services.

#### *Risk Factors specifically related to the United States Regulatory System*

XS operates in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

XS' business and that of its customers incurs ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of XS and, therefore, on XS' prospective returns. Further, XS or its customers may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of XS and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce XS' earnings and could make future capital investments or XS' operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

Multiple states in the U.S. have enacted comprehensive legislation to regulate the sale and use of medical and recreational cannabis. Notwithstanding the permissive regulatory environment of medical or recreational cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the CSA. As such, cannabis-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under U.S. federal law. Strict compliance with state laws will neither absolve XS of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against XS. Any such proceedings brought against XS may adversely affect XS' operations and financial performance.

Because of the conflicting views between state legislatures and the federal government of the U.S. regarding cannabis, cannabis-related operations and investments in cannabis businesses in the U.S. are subject to inconsistent legislation, regulation, and enforcement. Unless and until the U.S. Congress amends the CSA with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect XS' operations in the U.S. along with any future investments of XS in the U.S. As a result of the tension between state and federal law, there are a number of risks associated with [XS' existing business with those in the U.S. cannabis market](#).

For the reasons set forth above, XS' existing interests in the U.S. cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have cannabis-related operations and/or investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators ("CSA") and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**TMX MOU**") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Subordinate Voting Shares to make and settle trades. In particular, the Subordinate Voting Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Subordinate Voting Shares through the facilities of a stock exchange.

XS' activities and operations in the U.S. are, and will continue to be, subject to evolving regulation by governmental authorities. XS will be directly engaged in the medical and recreational cannabis industry in the California, where local state law permits such activities. Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis. However, the U.S. federal government has not enacted similar legislation. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains illegal under U.S. federal law.

Further, on January 4, 2018, U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice federal policy guidance governing enforcement of marijuana laws, as set forth in a series of memos and guidance from 2009-2014, principally the Cole Memo. The Cole Memo generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of this memo and other Obama-era prosecutorial guidance did not create a change in federal law as the Cole Memorandums were never legally binding; however, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandums' guidelines should not be a prosecutorial priority. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

Additionally, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, XS' current and future operations along with any future investments in such businesses would be materially and adversely affected. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect XS and its business.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memo discussed above, on February 8, 2018 the CSA published a Staff Notice 51-352 setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. XS views this staff notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as XS' ability to pursue future investment and opportunities in the U.S.

The concepts of "medical cannabis" and "retail cannabis" do not exist under U.S. federal law because the CSA classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under U.S. federal law. Although XS' activities are compliant with applicable U.S. state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve XS of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against XS. Any such proceedings brought against XS may adversely affect XS' operations and financial performance.

Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on XS, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the U.S., the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for XS to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Many factors could cause XS' actual results, performances and achievements to differ materially from those expressed or implied by the forward-looking statements, including without limitation, the following factors:

- the activities of XS are subject to evolving regulation that is subject to changes by governmental authorities in Canada, the U.S. and internationally and such authorities could impose restrictions on XS' ability to operate;
- third parties with which XS does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of XS' cannabis business activities;
- XS' ability to repatriate returns generated from operations and investments in the U.S. may be limited by anti-money laundering laws;
- federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and XS may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze XS' accounts and risks associated with uninsured deposit accounts. There is no certainty that Issuer will be able to maintain its existing accounts or obtain new accounts in the future; and
- although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

*XS is subject to applicable anti-money laundering laws and regulations.*

XS is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign 125 Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States, Canada and internationally. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a chequing account, debit or credit card, small business loan, or any other service could be found guilty of money laundering if certain other elements are met.

Despite these laws, the FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking FinCEN enforcement. It refers to and



incorporates supplementary Cole Memo guidance issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA on the same day.

Notwithstanding former Attorney General Sessions' revocation of the Cole Memo, the status of the FinCEN Memorandum has not been affected, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memo. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

#### *Ability to Access Private and Public Capital*

XS has historically relied on access to public and private capital in order to support its continuing operations and XS expects to continue to rely almost exclusively on the capital markets to finance its business in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and is not legal pursuant to U.S. federal law, Canadian based issuers involved in the U.S. cannabis industry have been successful in completing public financings. However, although XS has successfully access public and private capital markets in the past, there is no assurance XS will be successful, in whole or in part, in raising funds in the future, particularly if the U.S. federal authorities change their position toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due their unwillingness to be associated with activities which violate U.S. federal laws.

#### *Risk of Civil Asset Forfeiture*

Because the cannabis industry remains illegal under United States federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture. As a result, the equipment that is leased by the Issuer to its customers in the United States may be subject to such seizure and forfeiture. Additionally, a broad interpretation of the law could potentially result in the seizure and forfeiture of proceeds generated by the Issuer.

#### *Public Opinion and Perception*

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. Public opinion and support for medical and adult-use marijuana has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be improving for legalizing medical and adult-use marijuana, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new state jurisdictions into which the Issuer could expand. Any inability to fully implement the Issuer's expansion strategy may have a material adverse effect on the Issuer's business, results of operations or prospects.

#### *Enforceability of Contracts*

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a federal level, judges in multiple U.S. states have on a number of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even if there is no violation of state law. There remains doubt and uncertainty that the Issuer will be able to legally enforce contracts it enters into if necessary. The Issuer cannot be assured that it will have a remedy for breach of contract, which would have a material adverse effect.

*Admissibility to the U.S. Admissibility into the United States for those individuals involved with marijuana remains uncertain since the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law.*

U.S. Customs practices continue to evolve and U.S. Customs and Border Protection (“**CBP**”) released a statement on October 11, 2018 (the “**CBP Statement**”) confirming that CBP enforces the laws of the United States and U.S. laws have not changed following Canada’s legalization of marijuana. Requirements for international travelers wishing to enter the United States are governed by and conducted in accordance with U.S. federal law, which supersedes state laws. Although medical and recreational marijuana may be legal in some U.S. States and Canada, the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law. Consequently, crossing the border or arriving at a U.S. port of entry in violation of this law may result in denied admission, seizure, fines, and apprehension. The CBP Statement also stated that CBP officers are thoroughly trained on admissibility factors and the Immigration and Nationality Act, which broadly governs the admissibility of travelers into the United States. Determinations about admissibility and whether any regulatory or criminal enforcement is appropriate are made by a CBP officer based on the facts and circumstances known to the officer at the time. Generally, any arriving alien who is determined to be a drug abuser or addict, or who is convicted of, admits having committed, or admits committing, acts which constitute the essential elements of a violation of (or an attempt or conspiracy to violate) any law or regulation of a State, the United States, or a foreign country relating to a controlled substance, is inadmissible to the United States. The CBP Statement then continued to state that a Canadian citizen working in or facilitating the proliferation of the legal marijuana industry in Canada, coming to the U.S. for reasons unrelated to the marijuana industry will generally be admissible to the U.S. However, if a traveler is found to be coming to the U.S. for reason related to the marijuana industry, they may be deemed inadmissible.

*XS’ operations in the United States may be subject to heightened scrutiny.*

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public’s perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which XS could expand. Any inability to fully implement XS’ expansion strategy may have a material adverse effect on XS’ business, financial condition and results of operations.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical and recreational adult use cannabis under the *Cannabis Act* (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the state level. To XS’ knowledge, there are to date a total of 46 states, plus the District of Columbia, that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA in the United States and as such, may be in violation of federal law in the United States.

Since 2014, the United States Congress has passed appropriations bills which included provisions to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws

against regulated medical marijuana actors operating in compliance with state and local law (currently the “**Leahy Amendment**”, but also referred to as the Rohrabacher-Farr Amendment). There can be no assurances that the Leahy Amendment will be included in future appropriations bills.

American courts have construed appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. Controlled Substances Act, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress declines to include the Leahy Amendment in a future budget resolution, or fails to pass necessary budget legislation and causes a government shutdown, the government would have the authority to prosecute individuals for violations of the law before it lacked funding under the five (5) year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provides no protection against businesses operating in compliance with a state’s recreational cannabis laws.

## **18. PROMOTERS**

XS does not have any promoters.

## **19. LEGAL PROCEEDINGS**

Other than the Forfeiture Matter, there are no actual or contemplated legal proceedings material to XS or of which any of its property is the subject matter and there are no such proceedings known to XS to be contemplated

There have been no penalties or sanctions imposed against XS by a court or regulatory authority, and XS has not entered into any settlement agreements before any court relating to provincial or territorial securities legislation or with any securities regulatory authority, in the three years prior to the date of this Listing Statement

## **20. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as disclosed in this Listing Statement in Section 3.1 “General Development of the Business”, no director or executive officer of XS or person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10 percent of any class or series of the outstanding voting securities of XS, or any associate or affiliate of any of the foregoing has or had any material interest, direct or indirect, in any transaction within the three years before the date of this Listing Statement, or in any proposed transaction, which has materially affected or will materially affect XS

## **21. AUDITORS, TRANSFER AGENTS AND REGISTRARS**

The auditors of XS are McGovern Hurley LLP at its office located at 251 Consumers Road, Suite 800, Toronto, Ontario, M2J 4R3.

The transfer agent and registrar of the Subordinate Voting Shares is Odyssey Trust Company, at its office located at 350 – 300 5th Ave SW, Calgary, Alberta, T2P 3C4.

**22. MATERIAL CONTRACTS**

Other than contracts entered into in the ordinary course of business, the only material contract entered into within the two years before the date of this Listing Statement by XS is the Merger Agreement.

The Merger Agreement is described in detail in Section 3.1 of this Listing Statement and is available for inspection without charge at the office of the Issuer during ordinary business hours.

**23. INTEREST OF EXPERTS**

No person or corporation whose profession or business gives authority to a statement made by the person or corporation and who is named as having prepared or certified a part of this Listing Statement or as having prepared or certified a report or valuation described or included in this Listing Statement holds any beneficial interest, direct or indirect, in any securities or property of XS or of an Associate or Affiliate of XS and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of XS or of an Associate or Affiliate of XS and no such person is a promoter of XS or an Associate or Affiliate of XS.

McGovern Hurley LLP are independent of XS in accordance with the rules of professional conduct of the Institute of Chartered Professional Accountants of Ontario.

**24. OTHER MATERIAL FACTS**

There are no other material facts other than as disclosed herein that are necessary to be disclosed in order for this Listing Statement to contain full, true and plain disclosure of all material facts relating to the Issuer for the fiscal year ended December 31, 2019.

**25. FINANCIAL STATEMENTS**

Please refer to Schedules "A" and "B" for copies of the annual financial statements and management's discussion and analysis of the Issuer for the fiscal year ended December 31, 2019.

**SCHEDULE "A"**  
**ANNUAL FINANCIAL STATEMENTS**

**(PLEASE SEE ATTACHED)**

**SCHEDULE "B"**  
**ANNUAL MD&A**

**(PLEASE SEE ATTACHED)**