

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

CSE FORM 2A

LISTING STATEMENT

FISCAL YEAR ENDED DECEMBER 31, 2020

CAUTIONARY NOTE ON U.S. CANNABIS INVOLVEMENT

XS Financial Inc. (formerly Xtraction Services Holdings Corp.) (“XS”, “XSF”, 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. XSF 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, XSF 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 XSF 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On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys, which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memo rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law.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 XSF 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, XSF’s 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 XSF, 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.

XSF's 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 XSF. 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 XSF may be deemed to be producing, cultivating, extracting or dispensing cannabis in violation of federal law in the United States.

For these reasons, XSF’s operations in the United States cannabis market may subject XSF 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 XSF. 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 XSF; 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. XSF 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, XSF 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, 2020.

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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 “**XSF**” 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*

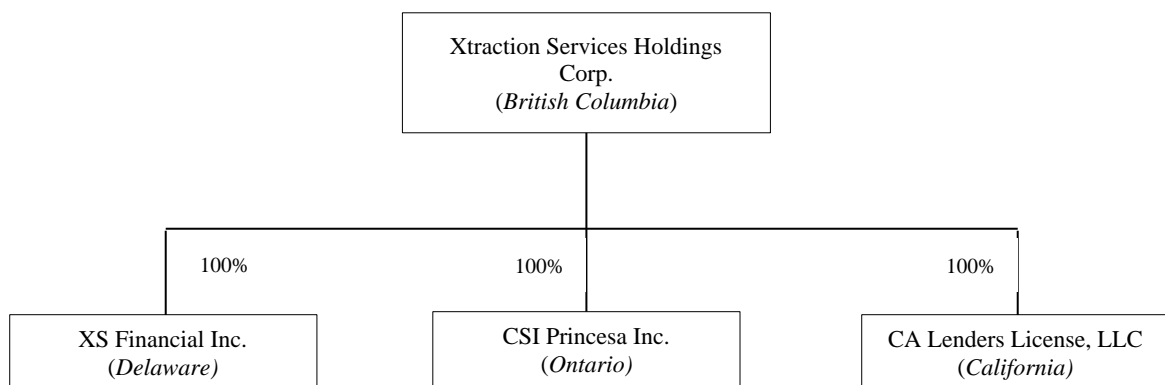
XSF’s head and registered office is located at 1901 Avenue of the Stars, Suite 120, Los Angeles, California, 90067 and its registered office is located at 301-16655 Ellis Street, Kelowna, B.C. V1Y 2B3.

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, 2020:



3. GENERAL DEVELOPMENT OF THE BUSINESS

3.1 *General Development of the Business*

XSF Financial provides the U.S. cannabis industry access to competitively-priced, non-dilutive CAPEX financing solutions. The Company specializes in providing financing for equipment and other qualified capital expenditures to growing cannabis companies, including cultivators, processors, manufacturers and testing laboratories. In addition, XSF has partnered with over 150 original equipment manufacturers (OEM) through its network of Preferred Vendor partnerships. This powerful dynamic provides an end-to-end solution for customers, resulting in recurring revenues, strong profit margins, and a proven business model for XSF stakeholders.

The Company predominantly generates equipment leases through its inside sales team, who focus on equipment vendors and end equipment users. XSF distinguishes itself from traditional equipment leasing companies in that it:

- offers equipment leasing, sale-leasebacks, and purchasing solutions;
- contracts are primarily generated through its relationships with industry vendors that provide XSF services at the point of sale, and direct relationships; and
- provides equipment procurement

XSF provides customers with the option of leasing equipment in consideration for monthly lease payments (pursuant to a master lease agreement).

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 XSF) 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) XSF 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 XSF 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 XSF 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) XSF Share at a price of US\$0.60 per XSF Share until the date that is two (2) years from the date of issuance.

Over four tranches between September and December 2018, 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 XSF Share and XSF 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 XSF advisory warrants (each, an “**XS September Advisory Warrant**”) to certain finders. 35,294 of such warrants entitling holders to acquire one (1) XSF Share at a price equal US\$0.85 per XSF 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) XSF Share at an exercise price equal to the greater of 85% of the subscription receipt issue price of the next qualified securities issued by XSF, 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 XSF Share and one XSF Share purchase warrant (each whole warrant, a “**Sub Receipt Warrant**”). Each Sub Receipt Warrant is exercisable into one XSF 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) XSF Share and one (1) XSF 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) XSF Share and one (1) XSF 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 XSF Shares to investment advisors and a third party service provider.

In May 2019, XS Subco sold 45,455 XSF 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 XSF 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) XSF Share at a price equal C\$1.10 per XSF 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

In July 2020, the Company acquired all of the outstanding shares of CA Licensed Lenders LLC for its California lenders license in exchange for 450,761 common shares of the Company. The common shares were valued at \$0.29CAD (\$0.21) on the date of the acquisition resulting in total consideration of \$96,237 plus transaction costs of \$13,651.

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 are directly and indirectly involved in the cannabis industry in the United States, as permitted within a particular state’s regulatory framework (“US Cannabis Issuers”). In addition, Staff Notice 51-352 also sets forth certain disclosure requirements for issuers which are not directly or indirectly involved in the cultivation or distribution of cannabis, but which may have material ancillary involvement in the U.S. cannabis industry as a result of their provision of goods and/or services to US Cannabis Issuers. As XSF provides leasing solutions to US Cannabis Issuers, it may be considered to have such material ancillary involvement, and accordingly provides the disclosure below pursuant to Staff Notice 51-352.

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.

President-elect Biden's presidential campaign position on cannabis falls short of full legalization. According to the Biden campaign website: “A Biden Administration will support the legalization of cannabis for medical purposes and reschedule cannabis as a CSA schedule II drug so researchers can study its positive and negative impacts. This will include allowing the VA to research the use of medical cannabis to treat veteran-specific health needs.” He has pledged to “decriminalize” cannabis, which may be reasonably interpreted to mean that the U.S. Attorney General under his administration will order U.S. Attorneys not to enforce federal cannabis prohibition against state law compliant entities and others legally transacting business with them. Indeed, the Biden-Sanders Unity Platform, which was released at the time President-elect Biden won the Democratic Party nomination for President, affirmed that his administration would seek to “decriminalize marijuana use and legalize marijuana for medical purposes at the federal level”;

“allow states to make their own decisions about legalizing recreational use”; and “automatically expunge all past marijuana convictions for use and possession.”

While President-elect Biden's promise to decriminalize likely would mean that the federal government would not criminally enforce the schedule II status against state legal entities, the implications are not entirely clear. Although the U.S. Attorney General could order federal prosecutors not to interfere with cannabis businesses operating in compliance with states' laws, the President alone cannot legalize medical cannabis, and as states have demonstrated, legalizing medical cannabis can take many different forms. While rescheduling cannabis to CSA schedule II would ease certain research restrictions, it would not make the state medical or adult use programs federally legal.

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, XSF’s 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, XSF 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 XSF’s 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 XSF 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 XSF, 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 XSF 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 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 XSF, each state licensee with a business relationship with XSF complies with applicable U.S. state licensing requirements. To the knowledge of XSF, each business holding a contractual relationship with XSF 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 XSF, no licensee has experienced any material non-compliance that would endanger the status of any license.

XSF is in compliance with applicable U.S. state and local law. XSF has engaged United States legal counsel to advise XSF 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.

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
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 XSF</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 the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.	Section 3 – General Development of the Business – <i>Industry and Background Trends</i> Section 17 – Risk Factors – <i>Risk Factors specifically related to the United States Regulatory System</i> Section 17 – Risk Factors – <i>Risk of Civil Asset Forfeiture</i> Section 17 – Risk Factors – <i>XSF's operations in the United States may be subject to heightened scrutiny.</i> Section 17 – Risk Factors – <i>Enforceability of Contracts</i> Section 17 – Risk Factors – <i>XSF is subject to applicable anti-money laundering laws and regulations.</i>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	<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>	<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>
	<p>Quantify the issuer's balance sheet and operating statement exposure to U.S. marijuana-related activities.</p>	<p>Section 5 – Selected Financial Information</p> <p>Schedule “A” to the Listing Statement.</p>
	<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.</p>	<p>Legal advice has been obtained.</p>
<p>U.S. Marijuana Issuers with direct involvement in cultivation or distribution</p>	<p>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.</p>	<p>Not applicable.</p>
	<p>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.</p>	<p>Not applicable.</p>
<p>U.S. Marijuana Issuers with indirect involvement in cultivation or distribution</p>	<p>Outline the regulations for U.S. states in which the issuer's investee(s) operate.</p>	<p>Not applicable.</p>
	<p>Provide reasonable assurance, through either positive or negative statements, that the investee's</p>	<p>Not applicable.</p>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	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.	
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 XSF's 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.¹

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 XSF

XS Financial provides the U.S. cannabis industry access to competitively-priced, non-dilutive CAPEX financing solutions. The Company specializes in providing financing for equipment and other qualified capital expenditures to growing cannabis companies, including cultivators, processors, manufacturers and testing laboratories. In addition, XSF has partnered with over 150 original equipment manufacturers (OEMs) through its network of Preferred Vendor partnerships. This powerful dynamic provides an end-to-end solution for customers.

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

XSF sources its equipment leasing through both a direct sales model and indirect sales model in coordination with third party equipment manufacturers to focus on identifying direct equipment users who could benefit from XSF's leasing.

Through the direct sales model, the equipment leasing program services an important market of growing businesses by leasing equipment to customers, enabling 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, XSF's team focuses on equipment manufacturers who stand to benefit from extending such leasing to their end-customers.

XSF 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.

With respect to corporate development, XSF continues to assess numerous acquisition and investment opportunities and intends to focus on pursuing those opportunities that align with its growth objectives in the U.S. and provides XSF with immediate origination and processing capabilities with a strong management team. While XSF 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, XSF believes significant synergies could be realized including greater brand visibility, increased market penetration and a decreased cost of capital.

Business Objectives and Strategy

The Company'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 Company'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.

Recent Developments and Outlook

Revenue Activity

XSF continues to assess numerous leasing opportunities and intends to focus on pursuing those opportunities that align with its growth objectives. Target leasing opportunities will primarily consist of leases to businesses underpinned by recurring, predictable revenues, sound balance sheets and experienced management teams. While the Company recognizes the challenging market dynamics of the Cannabis sector, XSF remains well-positioned to execute its business plan since 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.

During the year ended December 31, 2020, the Company added 5 new customers and completed 15 lease transactions with publicly-traded and private cannabis companies including, but not limited to, PharmaCann Inc., (“PharmaCann”), Columbia Care Inc. (“Columbia Care”) and Ayr Wellness Inc. (“Ayr Wellness”).

In May, June, August, November, and December 2020, the Company entered into six new leasing arrangements with PharmaCann, a vertically-integrated cannabis company operating cultivation, manufacturing, distribution and retail locations in multi-states in the USA. Per the terms of the agreements, the leases have terms of 48 months with expected monthly rentals and fees that total approximately \$4,900,000 which includes end of lease term purchase options for approximately \$170,000.

In September, October and December 2020, the Company entered into five new leasing arrangements with Ayr Wellness, an expanding vertically integrated, U.S. multi-state cannabis operator, focused on delivering the highest quality cannabis products and customer experience throughout its footprint. Per the terms of the agreements, the leases have terms ranging from 42 to 48 months with expected total rentals and fees that total approximately \$1,100,000 which includes end of lease term purchase options for approximately \$22,000.

In November 2020, the Company entered into a leasing arrangement with Columbia Care, one of the largest and most experienced multi-state operators in the medical cannabis industry, with licenses in 15 jurisdictions in the US and the EU. Per the terms of the agreements, the lease has a term of 48 months with expected total rentals and fees that total approximately \$2,000,000 which includes an end of lease purchase option for \$1.

Share Swap

In January 2020, the Company entered into a strategic partnership and cooperation agreement with KushCo Holdings Co. Inc. (“KushCo”) whereby the Company issued 10,600.3 proportionate voting shares at a share price of \$380CAD (\$290) each for total consideration of \$3,273,101 in exchange for 1,653,081 shares of KushCo valued at the fair value of the KushCo shares at the time of receipt. On completion of the share swap, KushCo became a 19.9% shareholder of the Company.

In November and December 2020, the Company sold 1,257,839 shares of the KushCo stock for net proceeds of approximately \$994,000.

Servicing Equipment and Spare Parts Inventory Divestitures

During the year ended December 31, 2020, the Company sold excess servicing equipment and spare parts inventory 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 inventory by approximately \$927,000, receiving gross proceeds of approximately \$605,000 and recognizing losses of approximately \$322,000.

Funds Available

XSF 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, 2020 is estimated to be US\$-2,079,684 at December 31, 2021. Subsequent to year end, the Company completed a private placement to raise net proceeds of CAD \$13,353,219.

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.

XSF has incurred losses and negative cash flows from operations since inception which may indicate the existence of material uncertainties which cast substantial doubt on XSF's ability to continue as a going concern. XSF's 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. XSF 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, XSF 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 offering is equipment leasing.

Equipment Leasing

XS Financial provides the U.S. cannabis industry access to competitively-priced, non-dilutive CAPEX financing solutions. The Company specializes in providing financing for equipment and other qualified capital expenditures to growing cannabis companies, including cultivators, processors, manufacturers and testing laboratories. Lease sizes vary depending on customer size, equipment needs, and credit worthiness.

Pricing

XSF's 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 XSF's relationships through its Preferred Vendor partnerships. XSF's pricing strategy, particularly as it relates to its leasing business, may be impacted by certain factors including fluctuations in interest rates. XSF's continually monitors its pricing strategy to ensure it remains competitive. See "Competitive Conditions" below.

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

The following summary provides certain information about XSF's 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 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

Customer Acquisition

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

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

Competitors

While XSF is not aware of any entity that provides the same products and services as that of XSF, it regards companies such as 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 XSF.

Employees

As of the December 31, 2020, XSF had 1 employee and 7 independent contractors. XSF prides itself in hiring talented individuals with a complementary mix of professional experience and industry knowledge. XSF 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. XSF 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. XSF 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, 2020, all of XSF's 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 December 31, 2018, 2019 and 2020. This selected financial information has been derived from and should be read in conjunction with XSF's 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 December 31, 2018 (US\$)	As at and for the fiscal year ended December 31, 2019 (US\$)	As at and for the fiscal year ended December 31, 2020 (US\$)
Statement of Operations			
Equipment and sales-type financing revenue	\$146,776	\$1,959,418	nil
Financing income and operating lease revenue	nil	\$330,399	\$676,460
Net income (loss) from continuing operations	(\$5,839,645)	(\$6,946,846)	(\$5,053,322)
Net income (loss)	(\$5,839,645)	(\$6,946,846)	(\$5,053,322)
Net income (loss) per share (basic and diluted)	(\$0.21)	(\$0.18)	(0.10)
Statement of Financial Position			
Total assets	\$6,691,867	\$4,474,606	\$7,293,996
Total liabilities	\$7,586,086	\$3,549,613	\$6,759,918
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, 2020:

Description	Amount Outstanding
Subordinate Voting Shares	32,337,725
Proportionate Voting Shares ⁽¹⁾	23,107,598
Stock Options ⁽²⁾	4,685,583
Share Purchase Warrants ⁽³⁾	7,375,078
Convertible Debentures (principal amount outstanding) ⁽⁴⁾	CAD \$5,668,000

Notes:

- (1) Represents 23,107,598 Subordinate Voting Shares as converted.
- (2) Average exercise price of CAD\$0.39
- (3) Average exercise price of CAD\$1.06
- (4) Principal amount converts into 5,152,727 SVS upon conversion

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, 2020.

	Shares under Options Granted	Exercise Price	Date of Grant	Expiry Date
Executive officers of XSF	250,000 ⁽¹⁾	US\$0.60	07/19/18	07/19/28
Other employees and former employees of XSF	38,435	US\$0.60	07/19/18	07/19/28
Consultants of XSF	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 XSF	500,000	C\$0.34	11/25/19	11/25/24
Directors of XSF (who are not also officers)	600,000	C\$0.34	11/25/19	11/25/24
Other employees and former employees of XSF	75,000	C\$0.34	11/25/19	11/25/24
Consultants of XSF	630,000	C\$0.34	11/25/19	11/25/24
Executive officers of XSF	493,728 ⁽²⁾	C\$0.22	04/20/20	04/20/25
Directors of XSF (who are not also officers)	143,525	C\$0.22	04/20/20	04/20/25
Other employees and former employees of XSF	335,363	C\$0.22	04/20/20	04/20/25
Consultants of XSF	836,273	C\$0.22	04/20/20	04/20/25
Consultants of XSF	16,565	C\$0.23	12/14/20	12/14/22
Total	4,685,583			

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

(2) Includes 493,728 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 XSF securities within the twelve months prior to December 31, 2020.

Date	Type of Security	Number of Securities	Issue/Exercise Price per Security
Jan 20, 2020	Sub receipt conversion	22,727	C\$1.10 per share
Jan 24, 2020	Common Shares	450,671	C\$0.39 per share
Jan 31 2020	Proportionate Voting Shares	10,600.300	C\$370.00 per share
Mar 20, 2020	Sub receipt conversion	25,455	C\$1.10 per share
May 12, 2020	Common Shares	600,000	C\$0.30 per share
May 19, 2020	Common Shares	350,000	C\$0.26 per share
Jul 20, 2020	Common Shares	119,047	C\$0.21 per share
Nov 5, 2020	Common Shares	47,059	C\$0.17 per share
Dec 2, 2020	Common Shares	736,002	C\$0.1875 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 December 31 2019 to December 31, 2020.

Month	High (\$)	Low (\$)	Volume
January 2020	0.425	0.275	482,753
February 2020	0.390	0.260	252,001
March 2020	0.275	0.100	378,185
April 2020	0.220	0.160	115,495
May 2020	0.350	0.180	1,620,499
June 2020	0.290	0.190	232,718
July 2020	0.290	0.180	317,209
August 2020	0.280	0.145	461,756
September 2020	0.250	0.170	868,043
October 2020	0.235	0.170	454,783
November 2020	0.300	0.180	1,556,789
December 2020	0.300	0.220	1,554,654

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 th of the escrowed shares	September 11, 2019 (the “ Transaction Closing Date ”)
1/6 th of the escrowed shares	6 months from the Transaction Closing Date
1/5 th of the escrowed shares	12 months from the Transaction Closing Date
1/4 th of the escrowed shares	18 months from the Transaction Closing Date
1/3 rd 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

Number of Proportionate Voting Shares Held in Escrow	Percentage of Class as of December 31, 2019	Release Date
12,889,834	100%	31-Aug-2022

12. PRINCIPAL SHAREHOLDERS

Other than as described below, to the knowledge of XSF, 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, 2020.

Name and Municipality of Residence	Type of Ownership	Number of Subordinate Voting Shares⁽²⁾	% of Subordinate Voting Shares⁽²⁾
Archytas Ventures, LLC ⁽¹⁾	Registered	12,039,930	21.72%
KushCo Holdings, Inc.	Registered	10,600,300	19.12%

(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 XSF.

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, 2020.

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, 2020
David Kivitz ⁽¹⁾ Los Angeles, California	Chief Executive Officer and Director of the Issuer	Former Managing Partner and Co-Founder, Alta Verde Group	12,039,930 ⁽²⁾
Joseph Fazzini Thornhill, Ontario	Chief Financial Officer & Corporate Secretary of the Issuer	Chief Financial Officer & VP Corporate Development, Eastmain Resources (TSX: ER) Former Chief Financial Officer, Toachi Mining Inc. (TSXV: TIM)	150,000 ⁽³⁾
Antony Radbod Los Angeles, California	Chief Operating Officer and Director of the Issuer	Entrepreneur and technology executive; Founder of Nobody Media	12,039,930 ⁽²⁾
Gary Herman ⁽¹⁾ New York, New York	Director of the Issuer	Investment Manager	48,000
Stephen Christoffersen ⁽¹⁾ Newport Beach, California	Director of the Issuer	Chief Financial Officer, Kush Co.	32,000

(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, 2020, all directors and officers of the Issuer held an aggregate of 12,269,930 Subordinate Voting Shares, as converted, representing approximately 22.13% 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**”).

Name of Member	Independent⁽¹⁾	Financially Literate⁽²⁾
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.

XSF 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 Chief Financial Officer 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 XSF 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, 2020 and December 31, 2019, for audit and non-audit related services, are as follows:

Financial Year	Audit fees (C\$)	Audit-Related Fees (C\$)	Tax Fees (C\$)	All Other Fees (\$)
Fiscal year ended December 31, 2019	\$35,000	\$150,000 ¹	Nil	Nil
Fiscal year ended December 31, 2020	\$41,200	Nil	\$9,000	Nil

¹ *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 XSF's knowledge, no director of the Issuer is, as at December 31, 2020, or has been within 10 years before such date, a director, chief executive officer or chief financial officer of any company (including XSF) 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 XSF's knowledge, no individual set forth in the above table or shareholder holding a sufficient number of securities of XSF to affect materially the control of XSF, nor any personal holding company of any such individual:

- (a) is, as of December 31, 2020, or has been within 10 years before such date, a director or executive officer of any company (including XSF) 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, 2020, 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, 2020, 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.

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.

Joe 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.

14. CAPITALIZATION

Issued Capital at December 31, 2020

	Number of Securities (non-diluted)	Number of Securities (fully-diluted)	% of Issued (non-diluted)	% of Issued (fully diluted)
<u>Public Float</u>				

Total outstanding (A)	55,445,323	72,658,711	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)	12,269,930	14,614,208	22.13%	20.11%
Total Public Float (A-B)	43,175,393	58,044,503	77.87%	79.89%
<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)		10,761,311 ⁽¹⁾		14.81%
Total Tradeable Float (A-C)	55,445,323	61,897,400	100.00%	85.19%

Notes:

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

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	30	542
100 – 499 securities	6	1821
500 – 999 securities	1	881
1,000 – 10,000 securities	5	6451
10,000 or more securities	64	32,337,724

Public Securityholders (Beneficial)**Class of Security**

<u>Size of Holding</u>	<u>Number of holders</u>	<u>Total number of securities</u>
1 – 99 securities		
100 – 499 securities		
500 – 999 securities		
1,000 – 1,999 securities		
2,000 – 2,999 securities		
3,000 – 3,999 securities		
4,000 – 4,999 securities		
5,000 or more securities		
Unable to confirm		23,107,599

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, 2020:

Designation of Securities	Number of Underlying Subordinate Voting Shares	Percentage (Fully Diluted)
Proportionate Voting Shares ⁽¹⁾	23,107,598	31.80%
Stock Purchase Options	4,685,585	6.45%
Warrants	7,375,078	10.15%
Total Convertible Securities		

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, 2019 and 2020 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) Antony Radbod, the Chief Operating Officer, the three most highly compensated individuals of the Issuer whose total compensation was, individually, more than C\$100,000 for the financial year ended December 31, 2020;

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, 2020 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 ⁽²⁾	2020	\$116,000	\$127,500	Nil	Nil	Nil	\$243,500
	2019	\$172,000	Nil	Nil	Nil	Nil	\$172,000
Joseph Fazzini, Chief Financial Officer and Corporate Secretary ⁽¹⁾	2020	\$126,000	Nil	Nil	Nil	Nil	\$126,000
	2019	\$77,369	Nil	Nil	Nil		\$77,369
Antony Radbod, Chief Operating Officer and Director ⁽²⁾	2020	\$116,000	\$127,500	Nil	Nil	Nil	\$243,500
	2019	\$172,000	Nil	Nil	Nil	Nil	\$172,000
Stephen Christoffersen, Director	2020	Nil	Nil	Nil	Nil	Nil	Nil
	2019	Nil	Nil	Nil	Nil	Nil	Nil
Gary Herman, Director	2020	Nil	Nil	Nil	Nil	Nil	Nil
	2019	Nil	Nil	Nil	Nil	Nil	Nil

(1) Mr. Fazzini was appointed in May 2019.

(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 represent fees paid by Archytas Subco for the fiscal year of Archytas Subco ended December 31, 2019 and 2020.

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 December 31, 2019 and December 31, 2020.

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 ⁽¹⁾ , Chief Financial Officer and Corporate Secretary	Stock Options	500,000	November 15, 2019	\$0.34	\$0.19	\$0.27	November 15, 2024
Gary Herman ⁽²⁾ , Director	Stock Options	300,000	November 15, 2019	\$0.34	\$0.19	\$0.27	November 15, 2024
Stephen Christoffersen ⁽³⁾ , Director	Stock Options	300,000	November 15, 2019	\$0.34	\$0.19	\$0.27	November 15, 2024
Archytas Ventures, LLC ⁽⁴⁾	Stock Options	493,728	April 14, 2020	\$0.22	\$0.22	\$0.23	April 12, 2025
Gary Herman ⁽²⁾ , Director	Stock Options	86,115	April 14, 2020	\$0.22	\$0.22	\$0.23	April 12, 2025
Stephen Christoffersen ⁽³⁾ , Director	Stock Options	57,410	April 14, 2020	\$0.22	\$0.22	\$0.23	April 12, 2025
Joseph Fazzini ⁽¹⁾ , Chief Financial Officer and Corporate Secretary	Stock Options	232,025	April 14, 2020	\$0.22	\$0.22	\$0.23	April 12, 2025

Note(s):

- (1) As of December 31, 2020, Mr. Fazzini held an aggregate of 732,025 stock options, each entitling him to acquire one Subordinate Voting Share in accordance with the terms and conditions thereof.
- (2) As of December 31, 2020, Mr. Herman held an aggregate of 386,115 stock options, each entitling him to acquire one Subordinate Voting Share in accordance with the terms and conditions thereof.
- (3) As of December 31, 2020, Mr. Christoffersen held an aggregate of 357,410 stock options, each entitling him to acquire one Subordinate Voting Share in accordance with the terms and conditions thereof.
- (4) As of December 31, 2020, Archytas Ventures LLC held an aggregate of 493,728 stock options, each entitling it to acquire one Subordinate Voting Share in accordance with the terms and conditions thereof. Securities are held by Archytas which is controlled David Kivitz and Antony Radbod.

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, 2020.

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, 2020: (i) a salary of \$116,000 USD was paid in respect of the services of the Chief Executive Officer of the Issuer; (ii) a salary of \$126,000 USD was paid in respect of the services of the Chief Financial Officer of the Issuer; and (iii) a salary of \$116,000 USD was paid in respect of the services of the Chief Operating Officer 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, 2020, the Issuer had an aggregate of 4,685,583 outstanding options, of which 1,237,253 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 XSF) and Antony Radbod (Chief Operating Officer of XSF) render their services to XSF through a second amended and restated master services agreement entered into between XSF and Archytas dated July 1, 2020 as amended on June 18, 2019 and effective January 1, 2019 (the "**Amended MSA**") and Joseph Fazzini (Chief Financial Officer and Corporate Secretary of XSF) renders his services to XSF under a consulting agreement. Further details of such agreements are set out below.

David Kivitz, Chief Executive Officer

The Amended MSA requires that XSF compensate Archytas for work completed by David Kivitz, a consultant of Archytas. In addition, the Amended MSA entitles Mr. Kivitz to participate in XSF's 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 XSF on August 1, 2018 (the "**Kivitz Employment Agreement**") terminated as of January 1, 2019. The initial grant of options to purchase 100,000 of XSF's 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 XSF.

In consideration for the services provided and per the terms of the Amended MSA, XSF 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.

Antony Radbod, Chief Operating Officer

The Amended MSA, among other things, provides for payment by XSF to Archytas for work completed. In addition, the Amended MSA entitles Mr. Radbod to participate in XSF's 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 XSF on August 1, 2018 (the “**Radbod Employment Agreement**”) terminated as of January 1, 2019. The initial grant of options to purchase 100,000 of XSF’s 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, XSF 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 XSF.

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

XSF 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 XSF. In the event of material breach by XSF, XSF will pay to Atlas an amount equal to the lesser of 24 months’ base fees or 0.5% of the XSF enterprise value on exit.

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 XSF which are held by Archytas which is controlled by David Kivitz and Antony Radbod, Archytas exercises approximately 22% 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 Reamended 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 Reamended 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, XSF 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

XSF has a brief operating history. As a result, XSF has a limited operating history upon which to base an evaluation of its business and prospects. XSF's 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. XSF 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.

Equipment Failures and Performance

XSF relies on third party manufacturers for its equipment leasing. From time to time, such equipment may not perform to specifications or to XSF's customers satisfaction. Such equipment deficiencies may lead to down time impacting XSF's 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 XSF personnel decreasing profit margins on certain ancillary services.

Risk Factors specifically related to the United States Regulatory System

XSF 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.

XSF's 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 XSF and, therefore, on XSF's prospective returns. Further, XSF 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 XSF 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 XSF's earnings and could make future capital investments or XSF's 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 XSF of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against XSF. Any such proceedings brought against XSF may adversely affect XSF's 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 XSF's operations in the U.S. along with any future investments of XSF in the U.S. As a result of the tension between state and federal law, there are a number of risks associated with XSF's existing business with those in the U.S. cannabis market.

For the reasons set forth above, XSF's 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.

XSF's activities and operations in the U.S. are, and will continue to be, subject to evolving regulation by governmental authorities. XSF 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, XSF's 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 XSF 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. XSF 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 XSF's 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 XSF's 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 XSF of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against XSF. Any such proceedings brought against XSF may adversely affect XSF's 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 XSF, 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 XSF 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 XSF's 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 XSF 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 XSF's 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 XSF's cannabis business activities;

- XSF's 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 XSF 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 XSF's 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.

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

XSF 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

XSF has historically relied on access to public and private capital in order to support its continuing operations and XSF 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 XSF has successfully access public and private capital markets in the past, there is no assurance XSF 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.

XSF's 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 XSF could expand. Any inability to fully implement XSF's expansion strategy may have a material adverse effect on XSF's 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 XSF's 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

XSF does not have any promoters.

19. LEGAL PROCEEDINGS

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

There have been no penalties or sanctions imposed against XSF by a court or regulatory authority, and XSF 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 XSF 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 XSF, 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 XSF.

21. AUDITORS, TRANSFER AGENTS AND REGISTRARS

The auditors of XSF 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 XSF 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 XSF or of an Associate or Affiliate of XSF and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of XSF or of an Associate or Affiliate of XSF and no such person is a promoter of XSF or an Associate or Affiliate of XSF.

McGovern Hurley LLP are independent of XSF 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, 2020.

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, 2020.

SCHEDULE "A"
ANNUAL FINANCIAL STATEMENTS

(PLEASE SEE ATTACHED)

XS Financial Inc.

Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in United States Dollars)

XS Financial Inc.

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Audit. Tax. Advisory.

Independent Auditor's Report

To the Shareholders of XS Financial Inc.

Opinion

We have audited the consolidated financial statements of XS Financial Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has incurred losses and negative cash flows from operations since inception and had an accumulated deficit as at December 31, 2020. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially

inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Koko Yamamoto.

McGovern Hurley LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
April 23, 2021

XS Financial Inc.
Consolidated statements of loss and comprehensive loss
For the years ended December 31, 2020 and 2019
(Expressed in United States dollars)

	Note	Year ended December 31,	
		2020	2019
Equipment and sales-type financing revenue	5	\$ -	\$ 1,959,418
Cost of sales	6	-	2,616,203
Gross loss		-	(656,785)
Financing income and operating lease revenue	5	676,460	330,399
		676,460	330,399
Operating expenses			
Administrative expenses	6	2,319,181	3,933,513
Sales and marketing expenses	6	309,340	216,066
Loss from operations		(1,952,061)	(4,475,965)
Financing expense, net	16	521,504	773,492
Accretion expense	16	323,678	1,493,164
Listing expense	4	-	363,095
Realized loss on sale of investments	7	1,501,621	-
Unrealized loss in fair value change of investments	7	461,395	-
Change in fair value of derivative liabilities	16	-	(889,229)
Loss on sale of property, plant and equipment, servicing equipment and inventory	11,12,13	311,003	658,845
Other income		(17,940)	(17,723)
Impairment of intangible asset	14	-	472,262
Loss before income tax		(5,053,322)	(7,329,871)
Income tax recovery	20	-	(383,025)
Net loss		\$ (5,053,322)	\$ (6,946,846)
Other comprehensive loss			
Items that will subsequently be reclassified to operations:			
Unrealized loss on foreign currency translation		(18,104)	(24,685)
Comprehensive loss		\$ (5,071,426)	\$ (6,971,531)
Loss per share - basic and diluted		\$ (0.10)	\$ (0.18)
Weighted average shares outstanding:			
Basic and diluted		53,145,555	37,562,660

Approved on behalf of the Board:

Gary Herman, Director

Stephen Christoffersen, Director

The accompanying notes are an integral part of these consolidated financial statements.

XS Financial Inc.
Consolidated statements of financial position
As of December 31, 2020 and 2019
(Expressed in United States dollars)

	Note	December 31,	
		2020	2019
Assets			
<i>Current assets</i>			
Cash		\$ 545,990	\$ 2,487,293
Investments	7	316,194	-
Trade receivables, net	8	-	124,715
Financing receivables, short-term	9	1,454,927	480,466
Inventories	10	-	36,052
Prepaid and other current assets	11	79,233	244,581
<i>Total current assets</i>		<u>2,396,344</u>	<u>3,373,107</u>
<i>Non-current assets</i>			
Servicing equipment	12	36,697	783,195
Property and equipment	13	8,187	7,506
Financing receivables, long-term	9	4,852,768	310,798
<i>Total non-current assets</i>		<u>4,897,652</u>	<u>1,101,499</u>
Total assets		<u>\$ 7,293,996</u>	<u>\$ 4,474,606</u>
Shareholders' equity and liabilities			
<i>Current liabilities</i>			
Loans and borrowings, short-term	16	\$ 805,762	\$ 600,000
Trade and other payables	18	2,264,139	119,752
Accrued expenses	19	1,149,641	201,317
Amounts due to related parties	22	256,486	-
Redeemable common stock	16	-	650,000
<i>Total current liabilities</i>		<u>4,476,028</u>	<u>1,571,069</u>
<i>Non-current liabilities</i>			
Loans and borrowings, long-term	16	<u>2,283,890</u>	<u>1,978,544</u>
Total liabilities		6,759,918	3,549,613
<i>Shareholders' equity</i>			
Share capital	15	14,688,043	10,342,678
Reserves		3,589,233	3,234,686
Conversion feature - debentures		939,534	958,935
Accumulated other comprehensive loss		(42,789)	(24,685)
Accumulated deficit		(18,639,943)	(13,586,621)
<i>Total shareholders' equity</i>		<u>534,078</u>	<u>924,993</u>
Total shareholders' equity and liabilities		<u>\$ 7,293,996</u>	<u>\$ 4,474,606</u>

Nature of operations and background information (Note 1)
Going concern (Note 1)
Contingencies (Notes 16 and 22)
Subsequent events (Note 24)

The accompanying notes are an integral part of these consolidated financial statements.

XS Financial Inc.

Consolidated statements of changes in equity

For the years ended December 31, 2020 and 2019

(Expressed in United States dollars)

	Note	Number of Common Shares	Number of Proportionate Common Shares	Share Capital	Reserves	Conversion feature for debentures	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance at January 1, 2019		32,501,238	-	\$ 4,737,813	\$ 582,670	\$ -	\$ -	\$ (6,214,702)	\$ (894,219)
Issuance of Class A common stock	15	757,500	-	626,874	-	-	-	-	626,874
Fair value allocation of loan borrowing proceeds	16	-	-	-	263,587	-	-	-	263,587
Issuance of Proportionate Voting Shares	15	(17,737,588)	17,737	-	-	-	-	-	-
Shares issued to Caracara shareholders	4	3,896,958	-	953,167	-	-	-	-	953,167
Conversion of Series B and Series C debentures to common stock	16	10,050,378	359	4,498,139	1,101,800	-	-	-	5,599,939
Conversion feature of Sub Receipt debentures, net of tax	16	-	-	-	-	1,019,572	-	-	1,019,572
Conversion feature of convertible debentures	16	-	-	-	-	47,265	-	-	47,265
Conversion of Sub Receipt debentures to common stock and warrants	16,17	413,636	-	170,169	88,952	(107,902)	-	-	151,219
Issuance of common stock to consultants, brokers and advisors	15	727,273	-	331,406	-	-	-	-	331,406
Issuance of warrants for services	17	-	-	-	649,341	-	-	-	649,341
Share-based incentive compensation	21	-	-	-	641,191	-	-	-	641,191
Share repurchase	15	(622,631)	(5,589)	(974,890)	(92,855)	-	-	(425,073)	(1,492,818)
Net loss and comprehensive loss		-	-	-	-	-	(24,685)	(6,946,846)	(6,971,531)
Balance at December 31, 2019		<u>29,986,764</u>	<u>12,507</u>	<u>\$ 10,342,678</u>	<u>\$ 3,234,686</u>	<u>\$ 958,935</u>	<u>\$ (24,685)</u>	<u>\$ (13,586,621)</u>	<u>\$ 924,993</u>
Balance at January 1, 2020		29,986,764	12,507	\$ 10,342,678	\$ 3,234,686	\$ 958,935	\$ (24,685)	\$ (13,586,621)	\$ 924,993
Conversion of Sub Receipt debentures to common stock and warrants	15, 16	48,181	-	24,510	13,223	(19,401)	-	-	18,332
Redeemable common stock settlement	16	-	-	650,000	-	-	-	-	650,000
Issuance of proportionate voting shares	15	-	10,600	3,273,100	-	-	-	-	3,273,100
Issuance of common shares for the purchase of a lenders license	15	450,671	-	96,238	-	-	-	-	96,238
Issuance of common shares to consultants, board members and related parties	15	1,852,108	-	301,517	-	-	-	-	301,517
Share-based incentive compensation	21	-	-	-	341,324	-	-	-	341,324
Net loss and comprehensive loss		-	-	-	-	-	(18,104)	(5,053,322)	(5,071,426)
Balance at December 31, 2020		<u>32,337,724</u>	<u>23,107</u>	<u>\$ 14,688,043</u>	<u>\$ 3,589,233</u>	<u>\$ 939,534</u>	<u>\$ (42,789)</u>	<u>\$ (18,639,943)</u>	<u>\$ 534,078</u>

The accompanying notes are an integral part of these consolidated financial statements.

XS Financial Inc.
Consolidated statements of cash flows
For the years ended December 31, 2020 and 2019
(Expressed in United States dollars)

	Note	December 31,	
		2020	2019
Cash flows from operating activities			
Loss for the period		\$ (5,053,322)	\$ (6,946,846)
Adjustments to reconcile loss to net cash flows:			
Depreciation and amortization	12,13,14	94,519	502,582
Unrealized loss on investment	7	461,395	-
Loss on investment	7	1,501,621	-
Acquisition of CFLL	15	96,238	-
Deferred tax expense	20	-	(384,000)
Gain on sale of servicing equipment to a customer	12	-	(346,557)
Loss on sale of inventory, servicing equipment and property and equipment	11,12,13	322,132	658,845
Impairment losses	12,14	-	579,140
Incentive compensation expense	21	341,324	641,191
Common shares, warrants and debentures issued for services	15,16,17	282,470	1,199,873
Finance and accretion expense	16	323,678	1,493,164
Listing expense	4	-	363,095
Change in fair value of embedded derivative liabilities	16	-	(889,229)
		(1,629,945)	(3,128,742)
Change in working capital items:			
Trade and other receivables	8	102,762	(47,294)
Financing receivables	9	(5,416,549)	(500,910)
Inventories	10	-	(1,100)
Prepaid and other current assets	11	165,348	(53,572)
Trade and other payables	18	2,144,387	(87,311)
Accrued expenses	19	948,324	409,923
Unearned revenue	5	(47,000)	(15,375)
Amounts due to related parties	22	256,486	(33,648)
Net cash flows used in operating activities		(3,476,187)	(3,458,029)
Cash flows from investing activities			
Proceeds from the sale of servicing equipment and property and equipment	12,13	605,205	867,755
Proceeds from the sale of investments	7	993,890	-
Purchases of servicing equipment	12	(246,542)	-
Purchases of property and equipment	13	(5,327)	(1,180)
Cash acquired as part of reverse acquisition	4	-	698,858
Net cash flows provided by investing activities		1,347,226	1,565,433
Cash flows from financing activities			
Proceeds from loans and borrowings	16	805,762	1,100,000
Proceeds from issuance of Sub Receipt debentures	16	-	4,472,085
Repayment of debt	16	(600,000)	(1,149,664)
Payment of debt issuance and deferred financing costs	16	-	(551,995)
Net cash flows provided by financing activities		205,762	3,870,426
Effect of exchange rate changes on cash		(18,104)	(24,685)
Net (decrease) increase in cash		(1,941,303)	1,953,145
Cash at beginning of the the period		2,487,293	534,148
Cash at end of the period		\$ 545,990	\$ 2,487,293

The accompanying notes are an integral part of these consolidated financial statements.

XS Financial Inc.
Consolidated statements of cash flows
For the years ended December 31, 2020 and 2019
(Expressed in United States dollars)

	<u>Note</u>	<u>December 31,</u>	
		<u>2020</u>	<u>2019</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest		\$ 513,416	\$ 394,313
Non-cash investing and financing activities			
Issuance of proportionate common shares for investment	15	\$ 3,273,100	\$ -
Issuance of common shares to consultants, board members and related parties	15	301,517	-
Redeemable common stock settlement	16	650,000	-
Discount on loan borrowings proceeds	16	-	228,183
Debt issuance costs - warrants and common stock issued	15,16,17	-	505,764
Issuance of convertible debt, net of discount of \$163,563	16	-	58,370
Issuance of warrants to service providers, consultants and Series C debenture holders	17	-	1,199,873
Issuance of warrants on conversion of Sub Receipt debentures	17	-	88,952
Issuance of embedded derivative liabilities	16	-	135,180
Conversion of Series B and Series C convertible debt to common stock and warrants	15	-	5,599,939
Conversion of Sub Receipt convertible debt to common stock and warrants	15	18,332	170,169
Servicing equipment sold and reduction to deferred revenue	12	-	1,006,542
Share buyback	15	-	1,492,818

The accompanying notes are an integral part of these consolidated financial statements.

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

(1) Nature of operations and background information

XS Financial Inc. ("XSF", or "the Company"), which changed its name from Xtraction Services Holdings Corp. on June 26, 2020 and formerly known as Caracara Silver Inc. ("Caracara") was incorporated under the laws of the Province of British Columbia on December 3, 2009 and is listed on the Canadian Securities Exchange ("CSE") under the symbol "XSF".

XSF, inclusive of its wholly-owned subsidiary Xtraction Services, Inc ("XSI"), is a specialty finance company that provides equipment leasing solutions in the United States to owner/operators of cannabis and hemp companies including cultivators, oil processors, manufacturers, testing laboratories, among others and operates in one business segment in one geographic area. Its registered office is located at 301 - 1665 Ellis Street, Kelowna, British Columbia, V1Y 2B3 and its operations address is 1901 Avenue of The Stars, Suite 120, Los Angeles, California 90067, USA.

Xtraction Services, Inc. ("XSI") was originally established as a Delaware limited liability company on October 9, 2017. In July 2018, XSI filed with the Secretary of State of Delaware to change its corporate status from a Delaware limited liability company to a Delaware corporation and elected to be classified as a corporation. On July 19, 2018, XSI received a Certificate of Conversion and Certificate of Incorporation from the Secretary of State of Delaware.

On March 22, 2019, XSI entered into a definitive merger agreement with Caracara pursuant to which Caracara would acquire all of the issued and outstanding common shares of XSI. The transaction was structured as a "reverse triangular merger" between XSI, Caracara and a wholly-owned subsidiary of Caracara incorporated under the laws of Delaware. On September 11, 2019, the merger became effective whereby Caracara's subsidiary acquired all of the issued and outstanding Class A and Class B common shares, stock options and warrants of XSI and the resulting issuer changed its name from Caracara Silver Inc. to Xtraction Services Holdings Corp. and continued with the business of XSI.

On July 13, 2020, the Company purchased CA Licensed Lenders LLC ("CFL"), whereby the only asset was a California lenders license (Note 15).

The accompanying consolidated financial statements have been approved by the Company's board of directors and are authorized for issuance as of April 23, 2021.

Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards and Interpretations (collectively IFRSs) as issued by the International Accounting Standards Board (IASB).

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

Basis of consolidation

Subsidiaries are entities over which the Company has control, where control is defined to exist when the Company is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases.

The consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries, Xtraction Services, Inc. incorporated in Delaware, United States, CA Licensed Lenders LLC incorporated in California, United States and CSI Princessa Inc. incorporated in Ontario, Canada. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements of loss and comprehensive loss from the effective date of acquisition up to the effective date of disposal, as appropriate.

All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

Functional and presentation currency

The consolidated financial statements of the Company are presented in U.S. dollars (USD). The functional currency of the Company and CSI Princessa Inc., its Canadian subsidiary, is the Canadian dollar. The functional currency of Xtraction Services, Inc. and CA Licensed Lenders LLC is the U.S. dollar.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value through profit and loss. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Use of estimates and judgement

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the management of the Company to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated financial statements and their effect are disclosed in Note 3 below.

Coronavirus

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout Canada and the United States. The spread of COVID-19 has caused significant volatility in Canadian, U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the Canadian, U.S. and international economies

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

and, although the Company has not experienced any material impact on its operations to date, the Company is unable to determine if it will have a future material impact to its operations or ability to raise funds.

Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses and negative cash flows from operations since inception and has an accumulated deficit of \$18,639,943 and \$13,586,621 as of December 31, 2020 and December 31, 2019, respectively. These matters, in conjunction with the ongoing COVID-19 global pandemic, are material uncertainties that cast significant doubt on the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company anticipates incurring additional losses until such time that it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements. The consolidated financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

The operations of the Company are subject to certain risks and uncertainties including, among others: uncertainty of product development; technological uncertainty; commercial acceptance of any developed products; dependence on collaborative partners; uncertainty regarding patents and proprietary rights; comprehensive government regulations; market risk; and dependence on key personnel.

(2) Significant accounting policies

Cash

The Company's cash consists of immediately available fund balances and is maintained at recognized US and Canadian banks. Funds maintained at US banks are insured through the FDIC. The Company maintained no cash equivalents as of December 31, 2020 and 2019.

Investments

Investments consist of marketable securities received in exchange for proportionate voting shares related to a strategic partnership and cooperation agreement (Note 7). The investments were initially recognized at fair value and are subsequently remeasured at fair value with any changes recorded as an unrealized gain or loss in the consolidated statements of loss and comprehensive loss. Any gain or loss on the disposal of investments is recorded as a realized gain or loss in the consolidated statements of loss and comprehensive loss.

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventories are determined on a first-in-first-out (FIFO) or specific identification basis. Net realizable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

Property and equipment

Property and equipment is stated at the aggregate cost incurred to acquire and place the assets in service. Expenditures for routine maintenance and repairs are charged to expense as incurred and costs of improvements and renewals are capitalized.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method when the assets are available for use. Depreciation of property and equipment is included in cost of sales expenses and administrative expenses in the consolidated statements of loss and comprehensive loss. Estimated useful lives have been determined as follows:

	Estimated useful lives
Computers	3 years
Machinery and equipment	5 years
Vehicles	5 years

Servicing equipment

Servicing equipment is comprised of extraction, processing, distillation and related equipment, and is stated at the aggregate cost incurred to acquire and place the assets in service. Expenditures for routine maintenance and repairs are charged to expense as incurred and costs of improvements and renewals are capitalized.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method when the assets are available for use. Depreciation of servicing equipment is included in cost of sales in the consolidated statements of loss and comprehensive loss. Estimated useful lives have been determined as follows:

	Estimated useful lives
Extraction and ancillary equipment	
extraction equipment	7 - 10 years
Pre-processing equipment	5 years
Post-processing equipment	5 years
Distillation equipment	5 years
Analytical and other equipment	3 years

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

Long-lived assets

Long-lived assets, such as property and equipment and servicing equipment, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company estimates its recoverable amount. An impairment loss is recognized to the extent the carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or cash –generating units. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Revenue recognition

The Company's revenue is derived from providing and leasing extraction, processing, distillation and related equipment (“servicing equipment”) used to extract and distill oil from Cannabis and Hemp plants. The products and services offered by the Company include: (i) the sale or lease of its equipment and processes; (ii) the provision of on-site services; and (iii) the provision of analytical services.

The Company recognizes revenue using the following five step model to analyze revenue transactions:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

Leasing and royalty arrangements

Revenue from the leasing of servicing equipment is based on the type of lease entered into with each customer. Each lease is classified as either a financing lease or operating lease. If a lease meets one or more of the criteria listed below and both the collectability of the minimum lease payments is reasonably predictable and there are no material uncertainties surrounding the amount of un-reimbursable costs yet to be incurred, the lease is classified as a financing lease; otherwise, it is classified as an operating lease:

- The lease transfers ownership of the asset to the customer by the end of the lease term.
- The customer has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date that the option will be exercised.
- The lease term is for the major part of the economic life of the asset even if title is not transferred.

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

- At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the asset.
- The asset is of such a specialized nature that only the customer can use it without major modifications.

The Company recognizes a finance lease when it transfers substantially all the risks and rewards incidental to ownership of the underlying servicing equipment to the customer. As a manufacturer or dealer the Company recorded leases as sales-type financing leases resulting in the recognition of revenue, cost of sales and selling profit on acceptance, usually automatic after delivery, installation and testing. Starting in 2020 the Company no longer met the definition of a manufacturer or dealer and therefore only recognized the financing component of the lease transaction. Financing income is separated from the contract, computed at the customer's incremental borrowing rate for equipment. When contracts contain non-lease components such as maintenance, professional services and or other deliverables, the Company separates and allocates transaction price to those individual components.

A lease that does not transfer substantially all the risks and rewards incidental to the ownership of the asset, is determined to be an operating lease. Revenue from operating leases is recognized on a straight-line basis over the term of the lease agreement.

Revenue from the sale of the residual asset at the end of a lease term is recognized at the date of sale.

Revenue from royalties generated on servicing equipment leased to customers is based upon monthly equipment output and is recognized based on actual production.

Equipment sales

Revenue from the sale of equipment is generally recognized on a gross basis, only in the normal course of business, with the sales price to the customer recorded as revenue and the acquisition cost of the product recorded as cost of sales. Revenue is recognized at a point in time when the title and risk of loss are passed to the customer upon shipment or delivery. The Company's equipment vendors provide warranties to the Company's customers on equipment sold and as such the Company has not estimated a warranty reserve or deferred revenue for potential warranty work.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset, and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- a) Financial assets and liabilities at fair value through profit or loss (“FVTPL”): A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of loss and comprehensive loss in the year in which they arise. The Company has investments classified as FVTPL.
- b) Receivables: Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's receivables comprise trade and other receivables and financing receivables and are initially recognized at fair value. Subsequently, receivables are measured at amortized cost using the effective interest method less a provision for impairment.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments (including all fees and points paid or received that form and integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

- c) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and other payables, accrued expenses, loans and borrowings, and amounts due to related parties which include the term loans and the underlying debenture component of the convertible debentures. Financial liabilities are initially recognized at fair value, net of directly attributable transaction costs.
- d) Compound financial instruments are initially measured at fair value less transaction costs directly attributable to its issue.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity component such as a conversion option. The equity component is initially recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Where the currency of the conversion price of a conversion option is different than the functional currency of the legal entity in which they were issued, the conversion option component is accounted for as a derivative liability. For the Company's conversion options denominated in Canadian dollars where the Company's functional currency was in U.S. dollars, the conversion option component is accounted for as a derivative liability, which is

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

measured at fair value using the Black-Scholes valuation model. In this case, the liability component of a compound financial instrument is recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the conversion option component. Any directly attributable transaction costs are allocated to the liability and conversion option components in proportion to their initial carrying amounts. Costs allocated to the derivative liability conversion feature are expensed on initial recognition.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The conversion option component classified as a derivative liability is subsequently revalued every reporting period using market-based valuation techniques. Gains and losses from changes in fair value are recorded in the consolidated statement of loss.

Interest related to the convertible debentures is recognized in the consolidated statements of loss and comprehensive loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

Derivative liabilities

Derivative liabilities are initially recognized at fair value on the date entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognized immediately as a component of other expense (income) in the consolidated statements of loss and comprehensive loss.

Fair value of financial instruments

The Company categorizes its financial assets and liabilities measured and reported at fair value in the consolidated financial statements on a recurring basis based upon the level of judgments associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs used to determine the fair value of financial assets and liabilities, are as follows:

- *Level 1*: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
- *Level 2*: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liabilities
- *Level 3*: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity)

Each major category of financial assets and liabilities measured at fair value on a recurring basis is categorized based upon the lowest level of significant input to the valuations. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Company's management assessed that cash, trade and other receivables, trade and other payables, accrued expenses, and amounts due to related parties approximate their carrying amounts largely

XS Financial Inc.

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Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

due to the short-term maturities of these instruments. There is no organized market for the finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.

The following fair value hierarchy table presents information about each major category of the Company's financial assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2020:				
Assets:				
Investments (Note 7)	\$ 316,194	\$ -	\$ -	\$ 316,194

As at December 31, 2019, the Company did not have any financial instruments measured at fair value.

The following table shows a reconciliation during the year ended December 31, 2019 for Level 3 fair values:

	Warrant derivative liabilities	Embedded derivative liabilities	Total
Balance at December 31, 2018	\$ 50,031	\$ 1,091,514	\$ 1,141,545
Net change in fair value (unrealized)	-	(889,229)	(889,229)
Reduction in embedded derivative liability as a result of Series C debenture conversion (Note 16)	-	(290,200)	(290,200)
Convertible debenture debt conversion option (Note 16)	-	135,180	135,180
Reclassification	(50,031)	(47,265)	(97,296)
Balance at December 31, 2019	\$ -	\$ -	\$ -

The Company had no financial instruments measured at Level 3 for the year ended December 31, 2020.

Transfers between levels are considered to occur on the date that the fair valuation methodology changes. There were no transfers between levels during the current or comparative periods. There were no liabilities at fair value as at December 31, 2020 and 2019.

Share-based incentive compensation

The Company accounts for share-based awards in accordance with provisions of IFRS 2, Share Based Payments, under which the Company recognizes the grant-date fair value of incentive-based awards issued to employees, consultants and advisors as compensation expense on a graded vesting basis over the vesting period of the award. The Company uses the Black-Scholes option pricing model to determine the grant-date fair value of restricted awards.

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Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Leases

The Company as Lessor

Refer to the revenue recognition policy note.

The Company as Lessee

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to use an identified asset for a period of time in exchange for consideration. All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

These exceptions are practical expedients that the Company has adopted. Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favor of the Company if it is reasonable certain to assess that option; and
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

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Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

Foreign currency translation

The functional currency accounts are translated into the presentation currency by translating assets and liabilities at exchange rates in effect at the reporting date. Equity accounts are translated at historical exchange rates. Revenues and expenses are translated at the average exchange rate for the period, if this is considered a reasonable approximation to actual rates, or at the rate on the date of the transaction. Any resulting gain or loss is recorded as a component of other comprehensive loss.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period-end exchange rates are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Income taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases.

Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Company had no uncertain tax positions for the years ended December 31, 2020 and 2019.

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Loss per share

Basic loss per share is computed by dividing the loss by the weighted average number of shares / units outstanding during the period. Diluted loss per share is computed by dividing the loss by the weighted average number of shares / units and other dilutive units outstanding during the period. For the periods presented, the effect of the dilutive instruments on loss per share / units would be anti-dilutive, therefore, basic loss per share / units equals diluted loss per share / units.

New standards and interpretations recently adopted

Effective January 1, 2020 the Company has adopted *IAS 1 – Presentation of Financial Statements (“IAS 1”)* and *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)*, which were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standards for *IAS 1* and *IAS 8*.

Effective January 1, 2020 the Company has adopted *IFRS 3 – Business Combinations (“IFRS 3”)*, which was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive, and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standard for *IFRS 3*.

New standards and interpretations not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under *IAS 1* based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1,

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2023. Earlier adoption is permitted. The Company will adopt these amendments as of their effective date, and is currently assessing the impacts on adoption.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets (“IAS 37”) was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022. Earlier adoption is permitted. The Company will adopt these amendments as of their effective date, and is currently assessing the impacts on adoption.

(3) Critical accounting estimates and judgements

In the application of the Company’s accounting policies, which are described in Note 2 above, the Company’s management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Depreciation of Servicing Equipment and Property and Equipment and Estimate of Useful Lives

Depreciation of servicing equipment and property and equipment is dependent upon estimates of useful lives. The Company estimates the useful lives of these assets based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets.

Long-Lived Assets and Impairment

Long-lived assets, such as servicing equipment and property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company estimates its recoverable amount. An impairment loss is recognized to the extent the carrying value exceeds its recoverable amount. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

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Share-based Incentive Compensation

The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. The assumptions and models used for estimating fair value for share-based payment transactions is disclosed in Note 21. The expected volatility assumptions for the Company's option and warrant grants are based on both the Company's and comparable companies volatility.

Derivative Liabilities

Derivative liabilities are initially recognized at fair value on the date entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognized immediately as a component of other expense (income) in the consolidated statements of loss and comprehensive loss. The fair value of the derivative liabilities is subject to measurement uncertainty due to the assumptions made for the inputs in the Black-Scholes option valuation. See Notes 16 and 17.

Compound Financial Instruments

The initial recognition of the compound financial instruments requires that the liability component and the conversion feature are recognized separately. Judgement is required to determine whether the conversion feature meets the definition of equity or a derivative liability. The fair values at initial recognition are subject to measurement uncertainty. See Note 16.

Functional Currency Determination

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates.

Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21. The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

Determination of Discount Rates

Determination of the discount rate for term loans and convertible debentures is based on comparison to similar interest bearing debt instruments of a group of comparative companies.

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Determination of Financing Lease or Operating Lease

In making the determination of whether an arrangement should be accounted for as a financing lease or an operating lease, the Company makes certain assumptions including, the interest implicit in the lease and the residual value of the equipment at the end of the lease.

Expected Credit Losses

See Notes 8 and 9.

Definition of a Business

Determination of whether a set of assets acquired, and liabilities assumed constitute a business under IFRS 3 requires the Company to make certain judgments, taking into account all facts and circumstances. See Note 4.

Contingencies

See Note 16 and 22.

Income, Value Added, Withholding and Other Taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company is also subject to tax regulations as they relate to flow-through financing arrangements. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

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(4) Reverse acquisition

The following table presents the Company's purchase price allocation for the reverse acquisition.

Cash	\$ 698,858
Other receivable	6,048
Accounts payable and accrued expenses	<u>(114,834)</u>
Net assets acquired	590,072
Purchase price paid:	
3,896,958 common shares	<u>\$ 953,167</u>
Excess of purchase price paid over net assets acquired	
allocated to listing expense	<u>\$ 363,095</u>

On March 22, 2019, XSI entered into a definitive merger agreement with Caracara pursuant to which Caracara, through a whole-owned subsidiary incorporated in the State of Delaware, would acquire all of the issued and outstanding common shares of XSI.

On September 11, 2019, the merger became effective via a "reverse triangular merger", pursuant to which Caracara acquired all of the issued and outstanding class A and class B common shares, stock options and warrants of XSI by way of a merger between XSI and Caracara's wholly-owned subsidiary. As a result of the transaction, the former shareholders of XSI held greater than 50% of the issued and outstanding shares of the resulting issuer. The substance of the transaction is a reverse acquisition of a non-operating company, as Caracara did not meet the definition of a business under IFRS 3. As a result, the transactions have been accounted for as a capital transaction with XSI being identified as the accounting acquirer and the equity consideration being measured at fair value under IFRS 2, using the acquisition method of accounting. The resulting issuer changed its name from Caracara to Xtraction Services Holdings Corp. and continued with the business of XSI.

The issued and outstanding common shares of Caracara were consolidated on the basis of 1 post-consolidation Caracara common share for every 6.262 outstanding Caracara common shares existing immediately before the consolidation. The fair value of the acquisition of 3,896,958 post-consolidation shares of Caracara at a fair value per share of \$0.24, based on the quoted price of the shares on the date of the transaction, was \$953,167. The purchase price allocation of the merger includes net assets acquired of \$590,072, resulting in a listing expense of \$363,095 reflected in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

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(5) Revenue

The following table presents a disaggregation of revenue by source and timing of revenue recognition:

	Year ended December 31,	
	2020	2019
Revenue source:		
Financing and other income on financing leases (Note 9)	\$ 533,210	\$ 7,715
Operating leases	143,250	322,684
Financing income and operating lease revenue	676,460	330,399
Equipment sales	-	1,015,528
Sales-type financing leases (Note 9)	-	930,342
Other revenue	-	13,548
Equipment and sales-type financing revenue	-	1,959,418
	<u>\$ 676,460</u>	<u>\$ 2,289,817</u>
Timing of revenue recognition under IFRS 15 from contracts with customers:		
Products and services transferred at a point in time	<u>\$ -</u>	<u>\$ 1,015,528</u>
Services transferred over time	<u>\$ -</u>	<u>\$ 1,266,574</u>

Financing income on financing leases

The Company recorded all financing leases entered into for the year ended December 31, 2020 on a net basis as the Company no longer met the definition of a manufacturer or dealer resulting in only the recognition of financing income revenue in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

Operating leases

The Company had three operating lease arrangements with customers that generated revenue in the years ended December 31, 2020 and 2019. Two of the arrangements that had expected minimum monthly revenue commitments of \$25,000 and \$30,000 through June 2020 and September 2020, respectively, were terminated in November 2019 and March 2020, respectively. The third operating lease was completed in March 2020.

The Company had \$nil and \$426,316 of servicing equipment (Note 12) subject to revenue generated from operating lease arrangements as of December 31, 2020 and December 31, 2019, respectively.

Equipment sales

The Company's largest revenue transaction for the year ended December 31, 2019 resulted from the sale of equipment to a single customer that was fully paid in October 2018 with delivery and installation completed in November 2019.

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Sales-type financing leases

The Company recorded financing leases entered into for the year ended December 31, 2019 as sales-type financing leases as the Company met the definition of a manufacturer or dealer resulting in the gross recognition of revenue, cost of sales and selling profit at lease commencement in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

Revenue concentration

All of the Company's revenue is derived from customers in the United States with three customers representing 40%, 15%, and 14% of the Company's recognized revenue for the year ended December 31, 2020, and three customers representing 44%, 29% and 16% of the Company's recognized revenue for the year ended December 31, 2019.

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(6) Expenses by nature

The following tables presents an analysis of expense by nature:

	Year ended December 31,	
	2020	2019
Cost of sales:		
Compensation and benefits	\$ -	\$ 268,006
Depreciation expense	-	374,944
Amortization of intangible	-	127,638
Equipment inventory purchases	-	658,641
Equipment inventory costs	-	1,004,195
Supplies and materials	-	90,415
Other expenses	-	92,364
	<u>\$ -</u>	<u>\$ 2,616,203</u>
Administrative expenses:		
Compensation and benefits	\$ 154,103	\$ 62,427
Incentive compensation	341,324	641,191
Contractors and outside services	235,773	297,620
Management fee	487,201	346,401
Professional fees	549,702	2,213,209
Office rent, utilities and expenses	23,786	52,932
Travel, meals and entertainment	11,670	42,363
Insurance	204,015	-
Depreciation expense	94,519	-
Other expenses	217,088	277,370
	<u>2,319,181</u>	<u>\$ 3,933,513</u>
Sales and marketing expenses:		
Compensation and benefits	\$ 104,509	\$ 95,392
Contractors and outside services	96,300	-
Professional fees	22,315	49,083
Advertising and marketing	83,360	61,098
Trade shows	-	8,107
Other expenses	2,856	2,386
	<u>\$ 309,340</u>	<u>\$ 216,066</u>

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(7) Investments

In January 2020, the Company entered into a strategic partnership and cooperation agreement with KushCo Holdings Co. Inc. (“KushCo”), A CDN publicly listed company, whereby the Company issued 10,600.3 proportionate voting shares at a share price of approximately \$309CAD (\$236) (Note 15) for total consideration of \$3,273,100 in exchange for 1,653,081 shares of KushCo valued at the fair value of the KushCo shares at the time of receipt based on the quoted market price on the date of the transaction.

The Company recorded the shares received from KushCo as investments on the consolidated statement of financial position. Investments are classified at FVTPL. In November and December 2020, the Company sold an aggregate of 1,257,839 shares of the KushCo stock for net proceeds of \$993,890. The Company recorded a realized loss of \$1,501,621 at FVPL in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020. At December 31, 2020, the remaining investment in KushCo was re-valued at \$316,194, with the unrealized change in fair value of \$461,395 reflected in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

(8) Trade receivables

The carrying value of trade receivables as of December 31, 2020 and 2019 was \$nil and \$124,715, respectively.

Trade receivables are measured at amortized cost net of allowance for uncollectible amounts. The Company determines its expected credit loss based on a number of factors, including length of time an account is past due, the customer’s previous loss history, and the ability of the customer to pay its obligation to the Company. The Company writes off receivables when they become uncollectible. Expected credit losses are included in general and administration expenses within the consolidated statements of loss and comprehensive loss.

(9) Financing receivables

The following table presents financing receivables:

	December 31,	
	2020	2019
Financing receivables, short-term	\$ 1,454,927	\$ 480,466
Financing receivables, long-term	4,852,768	310,798
	<u>\$ 6,307,695</u>	<u>\$ 791,264</u>

The Company has entered into lease arrangements as a lessor that are considered to be finance leases. All of the risks and rewards of ownership of the service equipment assets underlying the finance leases are substantially transferred to the lessee.

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The following table presents a maturity analysis of lease receivables, including the undiscounted lease payments to be received as at December 31, 2020:

2021	\$ 2,483,206
2022	2,450,079
2023	2,194,413
2024	1,590,799
Total undiscounted lease payments receivable	8,718,497
Unearned finance income	(2,410,802)
Net investment in lease	<u>\$ 6,307,695</u>

Allowance for credit losses

The Company measures loss allowances based on an expected credit loss ("ECL") impairment model for all financial instruments except those measured at FVTPL. Application of the model depends on the following credit stages of the financial assets:

- (i) Stage 1 - for new leases recognized and for existing leases that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months;
- (ii) Stage 2 - for those leases that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected over the remaining life of the lease; and
- (iii) Stage 3 - for leases that are considered to be credit-impaired, a loss allowance equal to full life time ECLs is recognized.

Thus, the evaluation of the allowance for credit losses is performed on a lease by lease basis. Definitions of default have been selected to eliminate the judgement that may otherwise be necessary, given the diversity within the finance receivable portfolio, the lack of individual drivers of changes in credit risk across assets and over time, and the resulting inability to assess which specific assets will be rectified. For the purposes of measuring ECL, a default is defined as leases and loans that have missed one payment and are not subsequently rectified within 60 days.

The Company is entitled to repossess financed equipment if the borrower defaults on their lease obligations. Any amounts recovered from the sale of repossessed equipment are credited to the allowance for credit losses when received.

The process of estimating ECLs uses the following inputs and assumptions to reflect information about past events, current conditions and forecasts of future conditions that are not already captured in the inputs:

- Recoveries of amounts previously written off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects of natural disasters and economic shocks that have occurred on credit losses in the next 12 months;

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- The stage of the business cycle for the industry, which considers: the competitive environment, GDP growth, prevailing interest rates and expectations of future rates, fiscal policy and inflation rates; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

Determining the inputs listed and ECLs requires significant estimation uncertainty. The estimation and application of forward-looking information requires significant judgement.

As of December 31, 2020 and 2019, there are no finance receivables past due or impaired and the Company has not recognized and loss allowance for expected credit losses on financing receivables.

(10) Inventories

Inventories primarily consist of equipment and spare parts that the Company intends to either sell to customers as part of the installation of servicing equipment for customers or for repair orders.

The carrying value of spare parts inventory as of December 31, 2020 and December 31, 2019 was \$nil and \$36,052, respectively. The spare parts inventory is being carried at cost, as it is the lower of cost or net realizable value.

The following table presents a continuity of inventory during years ended December 31, 2020 and 2019:

	December 31,	
	2020	2019
Balance at the beginning of the year	\$ 36,052	\$ 96,166
Transfer of prepaid servicing equipment	-	571,375
Transfer of equipment for customer sale	-	97,597
Purchases of servicing equipment for finance leases (Note 12)	11,883	1,023,211
Cost of sales - finance leases (Note 12)	(11,883)	(1,023,211)
Cost of sales - customer sale (Note 12)	-	(668,972)
Transfer to Khrysos (Note 12)	-	(60,114)
Sale of spare parts inventory	(36,052)	-
Balance at the end of the year	\$ -	\$ 36,052

In July 2020, the Company sold spare parts inventory to a third-party buyer resulting in the Company receiving gross proceeds of \$3,000 with a recognized loss of \$33,052 included in the loss on sale of property and equipment, servicing equipment and inventory within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

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(11) Prepaid and other current assets

The following table presents prepaid and other current assets:

	December 31,	
	2020	2019
Prepaid insurance	\$ 52,292	\$ 197,313
Prepaid consulting services	-	6,250
Canada tax receivable	6,941	41,018
Other	20,000	-
	<u>\$ 79,233</u>	<u>\$ 244,581</u>

(12) Servicing equipment

The following table below presents the change in carrying value of the Company's servicing equipment during the years ended December 31, 2020 and 2019:

	Extraction and ancillary extraction equipment	Pre- Processing equipment	Post- Processing equipment	Distillation equipment	Anlytical and other equipment	Total
Cost:						
Balance at December 31, 2018	\$ 2,052,431	\$ 17,118	\$ 444,132	\$ 176,698	\$ 45,694	\$ 2,736,073
Additions	667,586	19,325	313,947	115,592	111,643	1,228,093
Equipment sales	(1,123,066)	-	(222,021)	(180,031)	(42,159)	(1,567,277)
Customer equipment sale	-	-	(97,597)	-	-	(97,597)
Equipment for stock trade	-	(17,118)	(66,269)	-	(1,502)	(84,889)
Transfer to inventories (Note 10)	(851,436)	(4,872)	(132,947)	(112,259)	(74,294)	(1,175,808)
Impairment	(106,878)	-	-	-	-	(106,878)
Balance at December 31, 2019	<u>\$ 638,637</u>	<u>\$ 14,453</u>	<u>\$ 239,245</u>	<u>\$ -</u>	<u>\$ 39,382</u>	<u>\$ 931,717</u>
Additions	-	-	246,542	-	-	246,542
Equipment sales	(638,637)	(14,453)	(404,572)	-	(39,382)	(1,097,044)
Transfer to inventories (Note 10)	-	-	(16,390)	-	-	(16,390)
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,825</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,825</u>
Accumulated Depreciation:						
Balance at December 31, 2018	\$ (237,019)	\$ (1,605)	\$ (8,724)	\$ (2,945)	\$ (6,584)	\$ (256,877)
Depreciation	(268,369)	(5,252)	(67,717)	(20,670)	(16,746)	(378,754)
Equipment sales	245,282	-	30,889	23,615	14,528	314,314
Equipment for stock trade	-	5,028	14,252	-	918	20,198
Transfer to inventories (Note 10)	151,824	75	698	-	-	152,597
Balance at December 31, 2019	<u>\$ (108,282)</u>	<u>\$ (1,754)</u>	<u>\$ (30,602)</u>	<u>\$ -</u>	<u>\$ (7,884)</u>	<u>\$ (148,522)</u>
Depreciation	(37,949)	(1,506)	(44,054)	-	(6,364)	(89,873)
Equipment sales	146,231	3,260	42,021	-	14,248	205,760
Transfer to inventories (Note 10)	-	-	4,507	-	-	4,507
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,128)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,128)</u>
Net book value:						
Balance at December 31, 2019	\$ 530,355	\$ 12,699	\$ 208,643	\$ -	\$ 31,498	\$ 783,195
Balance at December 31, 2020	-	-	36,697	-	-	36,697

All of the servicing equipment is located in the United States.

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Equipment sales

During 2020 and 2019, the Company sold servicing equipment back to the original supplier of the equipment, Khrysos Global Inc. (“Khrysos”) (Note 22), and other third-party buyers. The total of these transactions resulted in the Company receiving gross proceeds of \$602,205 and (2019 - \$821,375) with recognized losses of \$289,080 and (2019 - \$563,392), which is included in the loss on the sale of property and equipment, servicing equipment and inventory within the consolidated statements of loss and comprehensive loss in the years ended December 31, 2020 and 2019, respectively.

In November 2019, the Company and Khrysos entered into an agreement that released the Company from any obligations associated with a previously agreed upon purchase commitment in exchange for the Company returning previously purchased servicing equipment. Pursuant to this agreement, the Company returned service equipment with a net book value of \$279,479 to Khrysos in exchange for the release from any future obligations and commitments and recorded a loss on disposition of the equipment of \$279,479, which is included in the loss on the sale of property and equipment, servicing equipment and inventory within the consolidated statements of loss and comprehensive loss in the year ended December 31, 2019.

Customer equipment sale

Throughout 2019 the Company delivered servicing equipment associated with a customer equipment sale (Note 5). During the year ended December 31, 2019, the Company sold equipment with a net book value of \$668,972 of which \$97,597 was servicing equipment and \$571,375 was transferred from prepaid servicing equipment. The Company recorded the proceeds in revenues and recognized a gross margin on the sale of the servicing equipment of \$346,557 in the year ended December 31, 2019.

Equipment sold in exchange for return of common stock

In December 2019, the Company reached an agreement with two shareholders of the Company, Khrysos, and a former employee of the Company who is now an employee of Khrysos, to forgive delivery of the prepaid equipment and return of spare parts inventory of \$60,114 in exchange for the return of 5,889 proportionate voting shares of the Company held by Khrysos and 622,631 common shares of the Company held by the former employee. The fair value of the shares at the time of the exchange was estimated to be \$1,399,963. The \$425,073 difference 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 \$92,855 (Note 21) were also cancelled. A gain of \$191,670 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. The gain has been included in the loss on sale property and equipment, servicing equipment and inventory in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

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Finance lease sales

The Company is a lessor for lease arrangements considered to be finance leases (Note 9). As a result substantially all of the risks and rewards of ownership of the financed equipment transferring to the lessee. The Company is entitled to repossess financed equipment if the lessee defaults on their contract.

Impairment loss

The Company recorded an impairment loss of \$106,878 in other expenses in cost of sales within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 related to a single piece of extraction equipment. The Company determined that net book value of the underlying equipment exceeded the value that could be recovered through a subsequent sale of the equipment.

Depreciation expense related to servicing equipment is included in administrative expenses and cost of sales within the consolidated statements of loss and comprehensive loss for the years ended December 31, 2020 and 2019, respectively.

(13) Property and equipment

The following table below presents the change in carrying value of the Company's property and equipment during the years ended December 31, 2020 and 2019:

	<u>Computers</u>	<u>Machinery and equipment</u>	<u>Vehicle</u>	<u>Total</u>
Cost:				
Balance at December 31, 2018	\$ 11,111	\$ 3,490	\$ 57,715	\$ 72,316
Additions	1,180	-	-	1,180
Equipment sales	<u>(3,997)</u>	<u>-</u>	<u>(57,715)</u>	<u>(61,712)</u>
Balance at December 31, 2019	\$ 8,294	\$ 3,490	\$ -	\$ 11,784
Additions	5,327	-	-	5,327
Balance at December 31, 2020	<u>\$ 13,621</u>	<u>\$ 3,490</u>	<u>\$ -</u>	<u>\$ 17,111</u>
Accumulated Depreciation:				
Balance at December 31, 2018	\$ (1,056)	\$ (291)	\$ (5,291)	\$ (6,638)
Depreciation	(2,757)	(698)	(1,924)	(5,379)
Equipment sales	<u>524</u>	<u>-</u>	<u>7,215</u>	<u>7,739</u>
Balance at December 31, 2019	\$ (3,289)	\$ (989)	\$ -	\$ (4,278)
Depreciation	<u>(3,948)</u>	<u>(698)</u>	<u>-</u>	<u>(4,646)</u>
Balance at December 31, 2020	<u>\$ (7,237)</u>	<u>\$ (1,687)</u>	<u>\$ -</u>	<u>\$ (8,924)</u>
Net book value:				
Balance at December 31, 2019	\$ 5,005	\$ 2,501	\$ -	\$ 7,506
Balance at December 31, 2020	6,384	1,803	-	8,187

All of the property and equipment is located in the United States.

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In March 2019, the Company sold a vehicle and computer equipment to Khryos (Note 22) for gross proceeds of \$46,380 and Khryos' assumption of the vehicle loan for a loss of \$7,593, which is included in the loss on sale of property and equipment, servicing equipment and inventory in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

Depreciation expense related to property and equipment is included in administrative expenses and cost of sales within the consolidated statements of loss and comprehensive loss for the years ended December 31, 2020 and 2019, respectively.

(14) Intangible asset

The following table below shows the change in carrying value of the Company's intangible asset during the years ended December 31, 2020 and 2019:

	Purchase exclusivity and intellectual property rights
Cost:	
Balance at December 31, 2018	\$ 765,830
Additions	-
Impairment	(765,830)
Balance at December 31, 2020 and 2019	<u>\$ -</u>
Accumulated Depreciation:	
Balance at December 31, 2018	\$ (165,930)
Depreciation	(127,638)
Impairment	293,568
Balance at December 31, 2020 and 2019	<u>\$ -</u>
Net book value:	
Balance at December 31, 2020 and 2019	\$ -

The value of the intangible asset was determined based on the fair value of XSI's membership units on the date (October 26, 2017) the Company entered into a joint venture and commercial arrangements agreement with Khryos which was subsequently amended and restated on December 7, 2017, whereby Khryos was granted a 40% ownership interest in the Company in exchange for the Company receiving purchase and intellectual property rights and an exclusive right to offer for sale, purchase, sell, lease and or use any equipment designed for the cannabis industry produced by Khryos or any of its affiliates. 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 Khryos. See also Note 22.

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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, thereby terminating the mutual exclusivity. In November 2019, the Company and Khrysos entered into an agreement that released the Company from 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 \$472,262 within consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

Amortization expense for the purchase and intellectual property rights is included in cost of sales within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

(15) Share capital

As at December 31, 2020 and December 31, 2019, the Company has an unlimited number of authorized common and proportionate voting shares with no par value. Proportionate voting shares can be converted into common shares at the option of the holders at a ratio of 1,000 to 1 upon approval of the Company's Resulting Issuer Board and satisfaction of the condition that greater than 40% of common and proportionate shareholders are US residents. On all voting matters, common shareholders are entitled to one vote and proportionate voting shareholders are entitled to 1,000 votes per proportionate voting share. Generally, in all other matters the proportionate voting shareholders have the same rights as the common shareholders and will be treated as if they were one class of shares. At December 31, 2020 and December 31, 2019, the Company had 32,337,724 and 29,986,764 issued and outstanding common shares and 23,107 and 12,507 issued and outstanding proportionate voting shares, respectively.

Share issuances

In April 2019, XSI issued 620,000 shares of Class A common shares valued based on the estimated fair value of XSI's common shares on the date of grant at \$0.83 per share to investment advisors in connection with services rendered for transaction advisory guidance and structuring and the raise of debt subscriptions. The fair value of XSI's common shares issued was determined based on a market approach using recent equity transactions entered into between XSI and third parties. The Company recorded \$464,800 as professional fees within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 related to transactional advisory services, and \$49,800 as debt issuance costs within the statements of financial position related to the debt subscription raise and is amortizing the costs to interest expense over the life of the Sub Receipt debentures under the effective interest rate method

In May 2019, XSI issued 92,045 Class A common shares valued based on the estimated fair value of XSI's common shares on the date of grant at \$0.82 per share to third party service provider for services to be rendered in future months. The estimated fair value of XSI's common shares issued was determined based on a market approach using recent equity transactions entered into between XSI and third parties. The Company recorded \$75,000 as a prepaid expense within the statements

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of financial position and amortized \$6,250 and \$68,750 to professional fees within the consolidated statements of loss and comprehensive loss for the years ended December 31, 2020 and 2019, respectively.

In May 2019, XSI sold 45,455 shares of Class A common shares to a service provider at a price of \$1.10CAD (\$0.82), with such proceeds being used to pay another service provider, which is an entity that is a related party to the shareholder. The Company recorded \$37,273 as professional fees within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

In September 2019, Caracara shareholders received 3,896,958 common shares of the resulting issuer as consideration in connection with the reverse acquisition (Note 4) at a price of \$0.24. The fair value of the common shares was based on the closing value of the Company's stock on the first day of trading on the CSE.

In September 2019, the Company issued 10,050,378 shares of common shares and 359 proportionate voting shares common shares on the conversion of the Series B and Series C convertible debentures (Note 16). Total shareholders' equity increased \$5,599,939 as a result of these conversions and the related reclassification of the embedded derivative liabilities associated with the Series C debentures.

In September and November 2019, the Company issued 363,636 and 50,000 shares of common shares, respectively, on the conversion of Sub Receipt debentures (Note 16). Total shareholders' equity increased \$151,219 as a result of this conversion.

In November and December 2019, the Company issued a combined 563,637 shares of common shares to consultants, brokers and advisors at prices ranging from \$0.20CAD (\$0.15) - \$1.10CAD (\$0.83) in settlement of outstanding obligations. The Company recorded \$196,540 as professional fees within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019. Additionally, as of December 31, 2019 the Company reflected an expense of \$134,866 for the issuance of 163,636 shares of common shares at a price of \$1.10CAD (\$0.85) within the statements of financial position and recorded as professional fees within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019. A director and officer of the Company received 150,000 common shares for consulting services.

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' proportionate voting shares of 5,889 and the former employee's common shares of 622,631 in exchange for servicing equipment and spare parts inventory valued at \$1,301,149 (Note 12). The proportionate voting shares of 5,889 and the common shares of 622,631, had a carrying value of \$974,890. The resulting \$425,073 difference between the carrying value of the proportionate voting shares and common shares received and their fair value was recorded as reduction to deficit in the consolidated statements of changes in equity in the year ended December 31, 2019. The return of the shares represented all of the shares held by Khrysos as at the date of the transaction.

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In January 2020, the Company issued 10,600.3 proportionate voting shares at a share price of approximately \$309CAD (\$236) to KushCo for total consideration of \$3,273,100 in exchange for 1,653,081 shares of KushCo valued at the fair value of the KushCo shares at the time of receipt based on the quoted market price on the date of the transaction (Note 7). On completion of the share swap, KushCo became a 19.9% shareholder of the Company.

In January and March 2020, the Company issued 22,727 and 25,454 common shares, respectively, on the conversion of Sub Receipt debentures (Note 16). Total shareholders' equity increased \$18,332 as a result of this conversion.

In May 2020, the Company issued a combined 950,000 common shares at a share prices ranging between \$0.26CAD (\$0.18) and \$0.30CAD (\$0.18), valued at the fair value of the shares provided at the time of issuance, to two separate service providers as consideration for a finder's fee earned on a new customer lease transaction and marketing services provided. The Company recorded \$108,000 as a direct cost of the customer lease in the statements of financial position as of December 31, 2020 and \$63,000 as sales and marketing expense within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

In July 2020, the Company issued 450,761 common shares at a share price of \$0.29CAD (\$0.21), valued at the fair value of the shares provided at the time of issuance, as consideration for the purchase of a California lenders license from CFLL. The Company recorded \$96,238 as professional fee transaction expense within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020. Additionally, in July 2020, the Company issued 119,047 common shares at a share price of \$0.21CAD (\$0.16), based on the value of the services provided, to a third-party service provider for settlement of an obligation for services provided. The Company recorded \$19,047 as marketing expense within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

In November and December 2020, the Company issued 783,061 common shares at share prices ranging between \$0.17CAD (\$0.13) and \$0.19CAD (\$0.15), based on the value of the services provided, to consultants, board members and a related party (Archytas), (Note 22) as consideration for services performed. The Company recorded \$97,450 and \$14,020 as general and administrative and sales and marketing expense, respectively, within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

In December 2020, the Company recorded \$650,000 of previously recorded redeemable common stock as a component of shareholders equity (Note 16).

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(16) Loans and borrowings

The following table presents loans and borrowings outstanding:

Description	Maturity date	Interest rate	December 31,	
			2020	2019
Line of credit:				
Burling Bank	November 19, 2022	8.0%	\$ 750,000	\$ -
Term loans:				
Archytas	November 7, 2020	12% - 18% ⁽¹⁾	-	600,000
Customers Bank	April 29, 2022	1.0%	55,762	-
Convertible debentures	March 22, 2024	10.0%	218,869	218,869
Sub Receipt convertible debentures	September 11, 2024	10.0%	4,085,852	4,126,148
			<u>5,110,483</u>	<u>4,945,017</u>
Less:				
Unamortized discounts, debt issuance costs and prepaid offering costs ⁽²⁾			<u>(2,020,831)</u>	<u>(2,366,473)</u>
			<u>\$ 3,089,652</u>	<u>\$ 2,578,544</u>
Non-current			\$ 2,283,890	\$ 1,978,544
Current			<u>\$ 805,762</u>	<u>\$ 600,000</u>

Notes to the table:

- (1) In May 2020, the Company amended the term loan agreement to lower the per annum interest rate from 18% to 12% starting on May 1, 2020 through maturity.
- (2) The carrying value of the \$600,000 term loan was adjusted using a discount rate of 50% to reflect the prevailing borrowing rates associated with debt acquired by companies with a similar credit risk profile as the Company. The carrying value of the convertible debentures and Sub Receipt convertible debentures issued in 2019 were adjusted using a discount rate of 25% to reflect the prevailing borrowing rates associated with debt acquired by companies with a similar credit risk profile as the Company. The debt discount is accreted over the life of the respective debt instruments using the effective interest method.

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The following table below shows the change in carrying value of the Company's loans and borrowings during the years ended December 31, 2020 and 2019:

	<u>Line of credit</u>	<u>Term loans</u>	<u>Convertible debentures</u>	<u>Vehicle loan</u>	<u>Debt discounts and prepaid costs</u>	<u>Total</u>
Balance at December 31, 2018	\$ -	\$ 600,000	\$ 6,271,000	\$ 49,664	\$ (2,696,379)	\$ 4,224,285
Borrowings	-	1,100,000	-	-	(228,183) ⁽¹⁾	871,817
Repayments	-	(1,100,000)	-	(49,664)	-	(1,149,664)
Issuance of convertible debt	-	-	218,869	-	(160,499) ⁽¹⁾	58,370
Issuance of Sub Receipt convertible debentures	-	-	4,472,085	-	(1,958,629) ⁽¹⁾	2,513,456
Conversion of Series B and Series C convertible debentures	-	-	(6,271,000)	-	1,497,939 ⁽²⁾	(4,773,061)
Conversion of Sub Receipt convertible debenture	-	-	(345,937)	-	191,878	(154,059)
Debt issuance costs	-	-	-	-	(505,764) ⁽¹⁾	(505,764)
Amortization and accretion of debt discounts and debt issuance costs	-	-	-	-	1,493,164	1,493,164
Balance at December 31, 2019	\$ -	\$ 600,000	\$ 4,345,017	\$ -	\$ (2,366,473)	\$ 2,578,544
Borrowings	750,000	55,762	-	-	-	805,762
Repayments	-	(600,000)	-	-	-	(600,000)
Conversion of Sub Receipt convertible debenture	-	-	(40,296)	-	21,964	(18,332)
Amortization and accretion of debt discounts and debt issuance costs	-	-	-	-	323,678	323,678
Balance at December 31, 2020	<u>\$ 750,000</u>	<u>\$ 55,762</u>	<u>\$ 4,304,721</u>	<u>\$ -</u>	<u>\$ (2,020,831)</u>	<u>\$ 3,089,652</u>

Notes to the table:

- (1) Represents debt discounts of \$2,229,963 for the discount on loan borrowing proceeds and convertible debt issuances, and \$623,112 of debt issuance costs netted against the gross proceeds of the Sub Receipt debenture issuance.
- (2) Represents the reclassification of unamortized debt discounts related to the conversion of the Series B and Series C convertible debentures.

Loans and borrowings (excluding interest), assuming no prepayments are scheduled to be repaid as follows:

<u>Year ended December 31,</u>	
2021	\$ 805,762
2022	-
2023	-
2024	4,304,721
	<u>\$ 5,110,483</u>

Line of credit

In November 2020, the Company entered into a senior secured revolving credit facility ("line of credit"), with a maximum borrowing base of \$2,000,000 and required monthly interest payments with all principal and unpaid interest payments due in November 2022. The line of credit bears interest at an annual rate equal to the greater of (i) 8.0% per annum or (ii) the Wall Street Journal

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Prime plus 4.0% and may be prepaid with no penalty at any time. The line of credit is subject to monthly financial covenants such as maintaining a maximum total leverage ratio and tangible net worth, such as defined in the agreement. The Company was in compliance with its financial covenants as of December 31, 2020. The line of credit is secured by substantially all of the assets of the Company. The Company incurred interest expense of \$2,764, within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020, related to this loan.

Term loans

The \$600,000 term loan was repaid in December 2020 and bore interest at a rate of 12% per annum, payable monthly. Prior to May 2020 the term loan bore an interest rate of 18% per annum. The Company incurred interest expense of \$80,129 and \$108,000, within the consolidated statements of loss and comprehensive loss for the years ended December 31, 2020 and 2019, respectively, related to this loan.

In January, February March and April 2019, the Company received additional funding of \$1,100,000 in the form of term loans (“2019 term loans”) from Archytas with maturity dates ranging from September 2019 to February 2020. The 2019 term loans bore interest at a rate of 18% per annum, payable monthly. In November 2019, the Company repaid Archytas the 2019 term loans in full. The Company incurred interest expense of \$142,743, within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019, in relation to these term loans.

In April 2020, the Company entered into a promissory note with a third-party lender to borrow \$55,762 under the U.S. government’s Paycheck Protection Program (“PPP”) via the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. Under the provisions of the PPP, loan proceeds are expected to be used for payroll costs, rent and utilities. The promissory note is unsecured, with a maturity date of April 29, 2022, accrues interest at 1.00% and requires eighteen fixed scheduled monthly amortization payments commencing in November 2020. PPP borrowers may apply for loan forgiveness in an amount equal to the sum of payroll costs, rent and utilities incurred during the 24-week period following the receipt of loan proceeds, whereby not more 40% of the amount forgiven can be attributable to non-payroll costs.

Convertible debentures

In March and April 2019, the Company issued \$294,000CAD (\$218,869) of convertible debentures to investment advisors and brokers for services rendered in raising debt subscriptions. The convertible debentures mature after 5 years and bear interest at a rate of 10% per annum payable in cash in equal quarterly installments. The convertible debentures convert into common shares and warrants at a conversion price of \$1.10CAD (\$0.82) at the holders’ option prior to maturity or upon a change of control. The warrants to be received have an exercise price of a \$1.50CAD (\$1.12) and have a five-year term. Upon a change in control, the Company is required to purchase the convertible debentures at a price of 105% of the principal balance plus accrued, unpaid interest. The Company has accounted for the fair value of the convertible debt at issuance of \$218,869 as debt issuance costs, within the consolidated statements of financial position and is being amortized to interest expense over the term of the Sub Receipt debentures under the

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effective interest rate method within the consolidated statements of loss and comprehensive loss. The debt discount of \$160,499 is being amortized to interest expense over the term of the convertible debentures under the effective interest rate method within the consolidated statements of loss and comprehensive loss. As of September 11, 2019, with the completion of the reverse acquisition, the debentures were re-issued through the legal parent entity and the underlying functional currency change triggered a reclassification of the debenture liability to equity. The fair value of the debenture liability as at September 11, 2019 immediately prior to the reclassification was \$145,989.

In March and April 2019, the Company completed a private placement of 5,882 subscription receipts for aggregate gross proceeds of approximately \$5,882,000CAD (\$4,500,000) and closing costs of approximately \$560,000 CAD (\$426,000). The subscription receipts were held in escrow, until satisfaction of the escrow release conditions, at which time each subscription receipt would be convertible into one 10% unsecured convertible debenture of the Company in the principal amount of \$1,000CAD (“Sub Receipt debenture”). On September 11, 2019, the escrow conditions were met, and the Company issued \$5,882,000CAD (\$4,472,085) of Sub Receipt debentures to various investors. The Sub Receipt debentures mature after 5 years and bear interest at a rate of 10% per annum payable in cash in equal quarterly installments. The Sub Receipt debentures convert into common shares and warrants at a conversion price of \$1.10CAD (\$0.82) at the holders’ option prior to maturity or upon a change of control. The warrants to be received have an exercise price of a \$1.50CAD (\$1.12) and have a five-year term. Upon a change in control the Company is required to purchase the Sub Receipt debentures at a price of 105% of the principal balance plus accrued, unpaid interest.

The principal amount of the debenture was estimated at its fair value of \$2,630,804 based on a discount rate of 25%. The Company incurred debt issuance costs, netted against the gross proceeds of the issuance, of \$1,398,268CAD (\$1,060,821) in connection with the issuance of the Sub Receipt debentures, of which \$821,332CAD (\$623,112) was allocated to the debenture liability. The debt issuance costs were recorded as a discount on the Sub Receipt debentures carrying value and are being amortized to interest expense over the life of the sub receipts convertible debentures under the effective interest rate method. The residual value of the debenture of \$1,841,281 was allocated to the conversion feature and recorded as a component of equity, net of issuance costs of \$437,709 and deferred tax impact of \$384,000.

On September 11, 2019, the Series B and Series C convertible debentures outstanding principal balance of \$6,271,000 and unpaid accrued interest balance of \$536,680 automatically converted into 10,050,378 common shares and 359 proportionate voting shares (Note 15) as all conditions of the proposed merger between XSI and Caracara were met. As a result, the carrying value of the liability was transferred to share capital.

In September and November 2019, investors exercised their conversion feature on \$400,000CAD (\$304,120) and \$55,000CAD (\$41,817) of the Sub Receipt debentures and received 363,636 and 50,000 common shares and warrants, respectively.

In January and March 2020, investors exercised their conversion feature on \$25,000CAD (\$8,941) and \$28,000CAD (\$9,391) of the Sub Receipt debentures and received 22,727 and 25,454 common shares and warrants, respectively.

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Embedded derivative liabilities

The conversion feature of the Series C debentures issued in September, October and December of 2018 and subsequently converted to equity upon the merger of XSI and Caracara was considered an embedded derivative liability as the conversion price was not fixed. The Company performed a Black-Scholes model while probability weighting various expected conversion prices, resulting in a fair value of \$1,341,557 determined at issuance, and accounted for the embedded derivative liabilities as a long-term liability within the consolidated statements of financial position.

In March 2019, the Company amended the conversion feature of the Series C debentures pursuant to which each holder of such debentures will receive upon conversion at price of \$0.94CAD, thereof one share of common shares and a warrant, which has a \$1.50CAD (\$1.12) exercise price and a five-year term, upon conversion. On date of modification, the embedded derivative relating to the Series C debentures was revalued using Black-Scholes valuation model with the following assumptions: risk free rate – 1.77%, expected volatility – 90% and exercise price of \$0.94CAD (\$0.71). In September 2019, the embedded derivative liabilities associated with the Series C conversion feature were reclassified to shareholders' equity within the consolidated statements of financial position in conjunction with the conversion of the Series C debentures. Prior to the Series C debenture conversion, the Company had reflected changes in the fair market value of the embedded derivative liabilities of \$801,314 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

The conversion feature of the \$294,000CAD (\$218,869) issued to investment advisors and brokers in March and April 2019 was considered an embedded derivative liability as the conversion price was denominated in a currency that was different from the functional currency at the time of issuance. On issuance date, the fair value of the embedded derivative liability was determined using the Black-Scholes option valuation model as \$135,180 with the following assumptions: risk free rate – 1.48%, expected volatility – 90% and exercise price of \$1.10CAD (\$0.82). On September 11, 2019, with the completion of the reverse acquisition the debentures were transferred to the legal parent entity and the underlying functional currency change triggered a re-valuation of the embedded derivative liability. The fair value of the embedded derivative liability as at September 11, 2019 of \$47,265 was reclassified as a component of equity. Prior to the Series C debenture conversion, the Company had reflected changes in the fair market value of the embedded derivative liabilities of \$87,915 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

Redeemable common stock

In July 2018, Archytas and another member exercised the conversion feature of term loans held with the Company and received a combined 6,737,588 shares of Class A common shares. The Company classified \$650,000 of the amount converted as redeemable common share stock liability within the consolidated statements of financial position as of December 31, 2019 as this represented amounts subject to rescission related to a U.S. governmental investigation of the Member's finances. An escrow balance of \$650,000 was maintained by Archytas on behalf of the Company to satisfy the obligation. In December 2020, the matter was resolved resulting in Archytas remitting the \$650,000 amount held in escrow to the U.S. government and the Company reversing the \$650,000 redeemable common stock liability with an offset to shareholders' equity (Note 15).

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

(17) Warrants

The following table summarizes warrant activity for the years ended December 31, 2020 and 2019:

	<u>Number of warrants</u>	<u>Weighted average exercise price per share</u>
Outstanding at December 31, 2018	1,140,012	\$ 0.66
Granted	<u>7,326,896</u>	\$ 1.06
Outstanding at December 31, 2019	8,466,908	\$ 1.02
Granted	48,181	\$ 1.10
Expired	<u>(1,140,012)</u>	\$ 0.66
Outstanding at December 31, 2020	<u><u>7,375,077</u></u>	\$ 1.06

Warrant issuances

In March and April 2019, the Company issued 774,308 warrants to third party investment advisors and brokers for services rendered in raising debt subscriptions with 374,308 of the warrants having a five-year term and a \$1.10CAD (\$0.82) exercise price. Upon being exercised the holders receive a share of common shares and a warrant, which have a \$1.50CAD (\$1.12) exercise price and a five-year term. The remaining 400,000 warrants have a two-year term and a \$1.10CAD (\$0.82) exercise price. The Company recorded \$232,916 of debt issuance costs within the consolidated statements of financial position. The debt issuance costs are being amortized to interest expense over the term of the Sub Receipt debentures under the effective interest rate method within the consolidated statements of loss and comprehensive loss. The warrants issued for service are accounted for under IFRS 2 and recorded in reserves.

In April and May 2019, the Company issued 536,818 warrants to an investment advisor and third-party service provider in connection with services rendered for transaction advisory guidance and consulting services to be rendered during 2019, with terms of two or five years and exercise price of \$1.10CAD (\$0.82) per share that vested immediately upon their issuance. The Company recorded \$290,402 and \$14,671 of professional fees for transactional advisory services and consulting expense, respectively, within the consolidated statements of loss and comprehensive loss in the year ended December 31, 2019. The warrants issued for service are accounted for under IFRS 2 and recorded in reserves.

In July 2019, the Company issued 150,000 warrants to consultants in connection with finance and accounting support services provided to the Company, with terms of two years and exercise price of \$1.10CAD (\$0.82) per share that vested immediately upon their issuance. The Company recorded \$61,321 of contractor costs, within the consolidated statements of loss and comprehensive loss in the year ended December 31, 2019. The warrants issued for service are accounted for under IFRS 2 and recorded in reserves. A director and officer of the Company received a total of 125,000 warrants.

XS Financial Inc.

Notes to the Consolidated Financial Statements

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(Expressed in United States Dollars)

In September 2019, the Company issued 5,452,134 of warrants related to the conversion of the Series C debentures (Note 16). The warrant issuance had terms of five years and exercise price of \$1.50CAD (\$1.12) per share that vested immediately upon their issuance. The warrants had a value of \$1,101,800 on the date of issue based on the allocation of the total carrying value of the debenture liability and conversion feature using the Black-Scholes option pricing model.

In September and November 2019, the Company issued 413,636 of warrants related to the conversion of Sub Receipt debentures (Note 16). The warrants have a term of five years and exercise price of \$1.50CAD (\$1.13 - \$1.14) per share. The warrants had a value of \$88,952 on the date of issue based on the allocation of the total carrying value of the debenture liability and conversion feature using the Black-Scholes option pricing model.

In January and March 2020, the Company issued 48,181 of warrants related to the conversion of Sub Receipt debentures (Note 16). The warrants have a term of five years and exercise price of \$1.50CAD (\$1.05 - \$1.15) per share. The warrants had a value of \$13,223 on the date of issue based on the allocation of the total carrying value of the debenture liability and conversion feature using the Black-Scholes option pricing model.

The grant date fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions during the years ended December 31, 2020 and 2019:

	<u>2020 issuances</u>	<u>2019 issuances</u>
Expected dividend yield	-	-
Expected volatility	90.0%	90.0%
Risk-free interest rate	0.8 - 1.6%	1.6 - 2.4%
Expected term	4.5 - 4.7 years	2 - 5 years
Conversion / share price	\$ 1.05 - 1.15 \$	0.82 - 1.14

The following table presents warrants outstanding at December 31, 2020:

Expiration date	Term (years)	Number of warrants outstanding	Number of warrants exercisable	Exercise price US \$	Exercise price CAD \$
22-Mar-21	2	400,000	400,000	\$ 0.82	\$ 1.10
12-Apr-24	5	500,000	500,000	\$ 0.82	\$ 1.10
15-May-21	2	36,818	36,818	\$ 0.82	\$ 1.10
17-Jul-21	2	150,000	150,000	\$ 0.84	\$ 1.10
11-Sep-24	5	374,308	374,308	\$ 0.82	\$ 1.10
11-Sep-24	5	5,452,134	5,452,134	\$ 1.12	\$ 1.50
11-Sep-24	5	363,636	363,636	\$ 1.13	\$ 1.50
11-Sep-24	5	50,000	50,000	\$ 1.14	\$ 1.50
11-Sep-24	5	22,727	22,727	\$ 1.16	\$ 1.50
11-Sep-24	5	25,454	25,454	\$ 1.05	\$ 1.50
Total	3.4 years	7,375,077	7,375,077	\$ 1.06	\$ 1.42

Subsequent to December 31, 2020, 400,000 warrants expired.

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

(18) Trade and other payables

The following table presents trade and other payables:

	December 31,	
	2020	2019
Trade payables	\$ 2,238,228	\$ 119,452
Credit card payable	25,911	300
	<u>\$ 2,264,139</u>	<u>\$ 119,752</u>

(19) Accrued expenses

The following table presents accrued expenses:

	December 31,	
	2020	2019
Accrued insurance	\$ -	\$ 152,295
Accrued professional fees	2,504	30,756
Accrued compensation, commissions, benefits and related taxes	85,093	9,212
Accrued servicing equipment purchases	990,554	-
Accrued other	68,990	9,054
Unearned revenue	2,500	-
	<u>\$ 1,149,641</u>	<u>\$ 201,317</u>

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

(20) Income taxes

Provision for income taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2019 – US federal and state statutory rate of 21.0%) were as follows:

	<u>Year ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
(Loss) before income taxes	\$ (5,053,322)	\$ (7,329,871)
Expected income tax recovery based on statutory rate	(1,061,000)	(1,942,000)
Adjustment to expected income tax benefit:		
Stock Based Compensation	72,000	170,000
Expenses not deductible for tax purposes	(1,000)	318,000
Tax assets acquired in reverse acquisition	-	(710,000)
Other	355,000	-
Change in foreign exchange rates	(22,000)	-
Change in tax rates	412,000	403,000
Change in benefit of tax assets not recognized	245,000	1,377,975
Deferred income tax recovery	<u>\$ -</u>	<u>\$ (383,025)</u>

Deferred income tax

The nature of deferred tax assets that have not been recognized because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom is summarized as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Recognized deferred tax assets and liabilities:		
Non-capital loss carry-forwards	\$ -	\$ 383,025
Other temporary differences	-	(383,025)
Deferred income tax liability	<u>\$ -</u>	<u>\$ -</u>
Unrecognized Deferred Tax Assets		
Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:		
Non-capital loss carry-forwards	\$ 15,422,000	\$ 9,661,000
Share issue costs	331,000	-
Other temporary differences	(1,475,000)	35,000
Total	<u>\$ 14,278,000</u>	<u>\$ 9,696,000</u>

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

As at December 31, 2020, the Company had Canadian non-capital losses of approximately \$4,558,000 CAD (\$3,580,000) (2019 - \$1,420,000) that expire from 2031 to 2040. As at December 31, 2020, the Company had United States net operating losses of approximately \$11,842,000 (2019 - \$8,241,000) that can be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

(21) Share-based compensation

In September 2019, in connection with the Caracara merger, the Company established the Omnibus Incentive Plan (“Incentive Plan”) which replaced and governs all options under the Company’s previously issued 2018 Stock Option Plan. The Incentive Plan provides for the granting of up to 15% of outstanding common shares and is not to exceed a maximum of 10,000,000 share-based equity incentive compensation awards such as stock options and restricted stock awards to directors, officers, employees, contractors, and advisors, as determined by the Company’s board of directors.

In November 2019, the Company granted 1,955,000 options to employees, directors and consultants of the Company. All the November 2019 stock option grants have an exercise price of \$0.34CAD (\$0.26) and vest over two years. A total of 1,100,000 stock options were granted to directors and officers.

In April and December 2020, the Company granted a total of 1,825,454 options to employees, directors, and consultants of the Company. The April 2020 and December 2020 stock option grants have exercise prices of \$0.22CAD (\$0.16), and \$0.23CAD (\$0.18), respectively, and vested immediately. A total of 375,550 stock options were granted to directors and officers.

The Company cancelled 150,000 and 2,512,674 issued options in the years ended December 31, 2020 and 2019, respectively, as a result of the resignation of certain employees of the Company and termination of the mutual exclusivity arrangement with Khrysos (Notes 12 and 22). Additionally, in January 2019, the Company accelerated the vesting of 857,523 options for a former officer of the Company to allow for immediate vesting.

The per-share grant date weighted average fair value of stock options was estimated at \$0.10 and \$0.07 on the date of grant for the years ended December 31, 2020 and 2019, respectively, using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,	
	2020	2019
Expected dividend yield	-	-
Expected volatility	128.0%	90.0%
Risk-free interest rate	0.3%	1.6%
Expected term	3 years	3.25 years
Share price	\$ 0.16 - 0.18	\$ 0.26

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

The following table summarizes stock option activity under the Option Plan for the years ended December 31, 2020 and 2019:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at December 31, 2018	3,567,893	\$ 0.60	9.5
Granted	1,955,000	\$ 0.26	
Cancelled / forfeited	<u>(2,512,764)</u>	\$ 0.60	
Outstanding at December 31, 2019	3,010,129	\$ 0.38	6.2
Granted	1,825,454	\$ 0.16	
Cancelled / forfeited	<u>(150,000)</u>	\$ 0.26	
Outstanding at December 31, 2020	<u>4,685,583</u>	\$ 0.30	4.9
Exercisable and vested at December 31, 2020	<u>3,733,160</u>	\$ 0.30	4.9

As of December 31, 2020, there was approximately \$48,000 (2019 - \$213,000) of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 0.5 years (2019 – 1.8 years).

The Company recorded compensation expense for stock options of \$341,324 and \$641,191 for the years ended December 31, 2020 and 2019, respectively.

The following table summarizes the stock options outstanding as at December 31, 2020:

Expiry Date	Exercise Price		Weighted Average	Number of Options Outstanding	Number of Options Vested
	US \$	CAD \$	Remaining Contractual Life (years)		
July 2028	\$ 0.60	\$ 0.78	7.55	1,055,129	703,771
November 2024	\$ 0.26	\$ 0.34	3.90	1,805,000	1,203,935
April 2025	\$ 0.16	\$ 0.22	4.30	1,808,889	1,808,889
December 2025	\$ 0.18	\$ 0.23	4.95	16,565	16,565
	<u>\$ 0.30</u>	<u>\$ 0.39</u>	<u>4.88</u>	<u>4,685,583</u>	<u>3,733,160</u>

(22) Related party transactions

The following presents balances and transactions between the Company and other related parties as of December 31, 2020 and 2019, and for the years ended December 31, 2020 and 2019, respectively.

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

Key management personnel

Key employees include executive management with the authority and responsibility for planning, directing and controlling the activities of the Company. The following table presents compensation and benefit expenses of key employees:

	Year ended December 31,	
	2020	2019
Salaries, contractor costs, management fees and benefits	\$ 668,508	\$ 473,475
Incentive compensation (non-cash)	63,385	371,374
	<u>\$ 731,893</u>	<u>\$ 844,849</u>

See also Notes 15, 17 and 21.

Related party transactions and amounts due to related parties

The following table presents expenses incurred on behalf of the Company and assets purchased from related parties for the years ended December 31, 2020 and 2019:

	Archytas	Khrysos	Total
Amounts due to related parties at January 1, 2019	\$ 13,000	\$ 105,654	\$ 118,654
Interest expense	262,457	-	262,457
Management fee	346,401	-	346,401
Operating expenses	-	90,225	90,225
Prepaid equipment purchases	-	283,228	283,228
Conversion of accrued interest to comon stock	(15,713)	-	(15,713)
Less payments to related parties	(606,145)	(479,107)	(1,085,252)
Amounts due to related parties at December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Amounts due to related parties at January 1, 2020	\$ -	\$ -	\$ -
Interest expense	86,129	-	86,129
Management fee	146,200	-	146,200
Management fee bonus	255,000	-	255,000
Operating expenses	1,486	-	1,486
Less payments to related parties	(232,329)	-	(232,329)
Amounts due to related parties at December 31, 2020	<u>256,486</u>	<u>\$ -</u>	<u>\$ 256,486</u>

Effective January 2019, the Company entered into a management services agreement with Archytas at a monthly rate of \$28,667 and a term of five years, with one-year automatic renewals, whereby Archytas will provide day-to-day executive management and support to the Company. Archytas is a shareholder of the Company, having been involved in the initial formation of XSI. In May and June 2020, the Company lowered the monthly rate to \$20,067 as part of a 30% cost reduction to the Company's management team, employees and external consultants. In June 2020 the management services agreement was amended to reduce the monthly rate to \$nil for July,

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

August, and September 2020. In December 2020, the management services agreement was amended to adjust the form of compensation to common stock for October, November and December 2020. As a result, the Company issued 600,855 of common shares to Archytas (Note 15), and recorded \$86,000 of management fee expense, within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020. In March 2021, the Company authorized the issuance of 1,071,255 common shares and accrued \$255,000 of management fee expense as a bonus for 2020 services (Note 24).

In addition, two officers and directors of the Company are partners of Archytas. The agreement cannot be terminated until Archytas holds less than 5% of the fully diluted capital stock of the Company. As at December 31, 2020 and 2019, Archytas held 19.4% and 25.5%, respectively of outstanding voting shares of the Company.

In conjunction with entering into this agreement the Company's CEO and CMO terminated their employment agreements with the Company. Additionally, Archytas will receive a fee for services provided on a successful acquisition, merger or change of control of the Company valued at 2% of the enterprise value of such transaction.

The Company is party to certain management contracts. These contracts require payments of \$746,000 upon the occurrence of a change in control of the Company, as defined by each officer's respective consulting agreement. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

Related party loans and borrowings

The Company had a \$600,000 term loan payable to Archytas outstanding as of December 31, 2019 (Note 16). In December 2020, the term loan was repaid in full. In January, February, March and April 2019, the Company received additional funding of \$1,100,000 in the form of the 2019 term loans from Archytas with maturity dates ranging from September 2019 to February 2020 (Note 16). In November 2019, the Company repaid Archytas the 2019 term loans in full.

Related party purchase commitments

Prior to 2020 the Company had the option to purchase extraction equipment from Khrysos, and in the past, did so under mutual exclusivity that required minimum purchases to remain in effect. However, throughout 2019, the Company expanded its range of product offerings to include other vendors in order to provide tailored, end-to-end solutions for customers, and accordingly no longer maintained the mutual 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. 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 (Note 12).

See also Note 13.

XS Financial Inc.

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Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

Related party sales

In March and April 2019, the Company entered into rental lease agreements to lease extraction machines and other ancillary processing equipment to Carolina Botanical Development, LLC (“CBD LLC”). CBD LLC was a related party to the Company as a result of a former shareholder of the Company also being an owner of CBD LLC. As part of the March 2019 lease agreement, CBD LLC paid \$100,000 owed to a related party of the Company, on behalf of the Company. As of December 2020, both lease arrangements are completed.

(23) Financial instrument risk exposures

Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company’s risk management processes:

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash, trade and other receivables and financing receivables. The Company does not have significant credit risk with respect to customers. All cash is placed with recognized U.S. and Canadian financial institutions. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. The Company has not recognized any loss allowance for expected credit losses on the trade and other receivables and financing receivables as of December 31, 2020. See also Notes 8 and 9.

The Company is entitled to repossess financed equipment if the lessee defaults on their contract in order to minimize any credit losses.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company’s approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

At December 31, 2020, the Company had current assets of \$2,396,544 and current liabilities of \$4,476,028. All current liabilities are due within one year.

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

At December 31, 2020, the Company also has the following obligations due:

	<u>Less than 6 months</u>	<u>6 months to 1 years</u>	<u>1 to 3 years</u>	<u>Over 3 years</u>
Trade and other payables	\$ 2,264,139	\$ -	\$ -	\$ -
Accrued expenses	1,149,641	-	-	-
Amounts due to related parties	256,486	-	-	-
Loans and borrowings ⁽¹⁾	-	-	805,762	4,304,721
Balance at December 31, 2020	<u>\$ 3,670,266</u>	<u>\$ -</u>	<u>\$ 805,762</u>	<u>\$ 4,304,721</u>

Note to the table:

(1) Represents undiscounted loans and borrowings.

Market risk

Currency risk

The Company has determined its functional currency to be the Canadian dollar and U.S. dollar. The operating results and financial position of the Company are reported in U.S. dollars. The Company has minimal financial transactions denominated in currencies other than the Canadian and U.S. dollar. The Company has no hedging agreements in place with respect to foreign exchange rates. The following table presents financial instruments in CAD currency subject to currency risk:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Tax receivable	\$ 8,836	\$ 53,345
Trade payable	\$ 69,128	\$ 50,070
Loans and borrowings ⁽¹⁾	\$ 5,668,000	\$ 5,721,000

Note to the table:

(1) Represents convertible debentures and sub receipt convertible debentures (Note 16).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's line of credit is subject to fluctuations in interest rates and therefore exposes the Company to interest rate fair value risk. The remainder of the Company's financial debt and lease receivables have fixed rates of interest resulting in limited interest rate fair value risk for the Company.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to equity price risk associated with changes in the market value of its investments. The Company closely monitors equity prices to determine the

XS Financial Inc.

Notes to the Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

(Expressed in United States Dollars)

appropriate course of action to be taken. A 10% change in the quoted market of investments would result in a change of approximately \$32,000 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

(24) Subsequent events

Syndication platform and issuance of note payable

In February 2021, the Company entered into six separate promissory note agreements with a third-party lender totaling \$1,000,000 with maturity dates ranging from June 2024 to December 2024. The promissory notes bear interest at a rate of 12% per annum, payable monthly. Each promissory note is secured by the lease payment streams and the underlying equipment of certain finance leases the Company has entered into with customers.

Private placement issuance

In February and March 2021, the Company received gross proceeds of approximately \$10,700,000, including approximately \$1,250,000 from Archytas, net of issuance costs of approximately \$785,000, from the issuance of 39,259,731 units at a price \$0.30CAD (\$0.24) and 5,251 proportionate voting units at a price \$300CAD (\$238). Each unit consists of one common share and one warrant. The warrants to be received have an exercise price of a \$0.45CAD (\$0.36) and \$450CAD (\$360) for the units and proportionate voting units, respectively, and have a two-year term.

In connection with the private placement the Company issued an additional 2,353,400 warrants to brokers and agents which entitled the holder to acquire one unit at a price of \$0.30CAD (\$0.24) for a period of two years from the date of issuance, and an aggregate of 1,450,000 units in satisfaction of a corporate finance fee. Each unit consists of one common share and one warrant. The warrants to be received have an exercise price of a \$0.45CAD (\$0.36) and have a two-year term.

Share issuance

In March 2021, the Company issued 1,988,891 common shares at share prices ranging between \$0.30CAD (\$0.24) and \$0.37CAD (\$0.30), based on the value of the services provided, to consultants and a related party (Archytas) (Note 22), as consideration for services performed.

Stock option grant

In March 2021, the Company granted 1,880,180 of options to employees, directors and consultants of the Company with an exercise price of \$0.33CAD (\$0.26). The options have a term of five years, with vesting terms either immediately or over three years.

SCHEDULE "B"
ANNUAL MD&A

(PLEASE SEE ATTACHED)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of the operations of XS Financial Inc. ("XSF", the "Company", "our" or "we") constitutes management's review of the factors that affected the Company's financial and operating performance for the years ended December 31, 2020 and 2019. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020 together with the notes thereto. The annual financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All amounts in the annual financial statements and this discussion are expressed in United States dollars, unless otherwise stated. The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at April 23, 2021 unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of XSF's securities; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

This discussion contains "forward-looking information" and may also contain statements that may constitute "forward-looking statements", collectively "forward-looking information", within the meaning of applicable Canadian securities legislation. Such forward-looking information is not representative of historical facts or information or current condition, but instead represent the beliefs and expectations regarding future events about the business and the industry and markets in which XSF operates, as well as plans or objectives of management, many of which, by their nature, are inherently uncertain. Generally, such forward-looking information can be identified by the use of terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or may contain statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "will continue", "will occur" or "will be achieved".

Management considers the assumptions on which forward-looking information is based to be reasonable at the time the statements were made. Accordingly, actual results could differ materially from those expressed or implied within forward-looking information.

GOING CONCERN ASSUMPTION

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses and negative cash flows from operations since inception and has an accumulated deficit of \$18,639,943 and \$13,586,621 as of December 31, 2020 and December 31, 2019, respectively. These matters, in conjunction with the ongoing COVID-19 global pandemic, are material uncertainties that cast significant doubt on the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The

Company anticipates incurring additional losses until such time that it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements. The consolidated financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

OVERVIEW OF THE COMPANY

Company Background

XSF, which changed its name from Xtraction Services Holdings Corp. on June 26, 2020, and formerly known as Caracara Silver Inc. ("Caracara") was incorporated under the laws of the Province of British Columbia on December 3, 2009, and is listed on the Canadian Securities Exchange ("CSE") under the symbol "XSF".

Xtraction Services, Inc. ("XSI") was originally established as a Delaware limited liability company on October 9, 2017. In July 2018, XSI filed with the Secretary of State of Delaware to change its corporate status from a Delaware limited liability company to a Delaware corporation and elected to be classified as a corporation. On July 19, 2018, XSI received a Certificate of Conversion and Certificate of Incorporation from the Secretary of State of Delaware.

On March 22, 2019, XSI entered into a definitive merger agreement with Caracara pursuant to which Caracara would acquire all of the issued and outstanding common shares of XSI. The transaction was structured as a "reverse triangular merger" between XSI, Caracara and a wholly-owned subsidiary of Caracara incorporated under the laws of Delaware. On September 11, 2019, the merger became effective whereby Caracara's subsidiary acquired all of the issued and outstanding Class A and Class B common shares, stock options and warrants of XSI and the resulting issuer changed its name from Caracara Silver Inc. to XS (formerly known as Xtraction Services Holdings Corp.) and continued with the business of XSI.

On July 13, 2020, the Company purchased CA Licensed Lenders LLC ("CFLL"), whereby the only asset was a California lenders license.

Description of Business

XS Financial provides the U.S. cannabis industry access to competitively-priced, non-dilutive CAPEX financing solutions. Founded in 2017, the Company specializes in providing financing for equipment and other qualified capital expenditures to growing cannabis companies, including cultivators, processors, manufacturers and testing laboratories. In addition, XSF has partnered with over 150 original equipment manufacturers (OEM) through its network of Preferred Vendor partnerships. This powerful dynamic provides an end-to-end solution for customers, resulting in recurring revenues, strong profit margins, and a proven business model for XSF stakeholders.

The Company predominantly generates equipment leases through its employee sales force, who focus on equipment vendors and direct equipment users. XSF distinguishes itself from traditional equipment leasing companies in that it:

- offers equipment-specific leasing, sale-leasebacks, and purchasing solutions;

- contracts are primarily generated through its relationships with industry vendors that provide XSF services at the point of sale, and direct relationships; and
- provides equipment procurement

XSF provides customers with the option of leasing equipment in consideration for monthly lease payments (pursuant to lease agreements).

Recent Developments and Outlook

Revenue Activity

XSF continues to assess numerous leasing opportunities and intends to focus on pursuing those opportunities that align with its growth objectives. Target leasing opportunities will primarily consist of leases to businesses underpinned by recurring, predictable revenues, sound balance sheets and experienced management teams. While the Company recognizes the challenging market dynamics of the Cannabis sector, XSF remains well-positioned to execute its business plan since 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.

During the year ended December 31, 2020, the Company added 5 new customers and completed 15 lease transactions with publicly-traded and private cannabis companies including, but not limited to, PharmaCann Inc., (“PharmaCann”), Columbia Care Inc. (“Columbia Care”) and Ayr Wellness Inc., (“Ayr Wellness”).

In May, June, August, November, and December 2020, the Company entered into six new leasing arrangements with PharmaCann, a vertically-integrated cannabis company operating cultivation, manufacturing, distribution and retail locations in multi-states in the USA. Per the terms of the agreements, the leases have terms of 48 months with expected monthly rentals and fees that total approximately \$4,900,000 which includes end of lease term purchase options for approximately \$170,000.

In September, October and December 2020, the Company entered into five new leasing arrangements with Ayr Wellness, an expanding vertically integrated, U.S. multi-state cannabis operator, focused on delivering the highest quality cannabis products and customer experience throughout its footprint. Per the terms of the agreements, the leases have terms ranging from 42 to 48 months with expected total rentals and fees that total approximately \$1,100,000 which includes end of lease term purchase options for approximately \$22,000.

In November 2020, the Company entered into a leasing arrangement with Columbia Care, one of the largest and most experienced multi-state operators in the medical cannabis industry, with licenses in 15 jurisdictions in the US and the EU. Per the terms of the agreements, the lease has a term of 48 months with expected total rentals and fees that total approximately \$2,000,000 which includes an end of lease purchase option for \$1.

Share Swap

In January 2020, the Company entered into a strategic partnership and cooperation agreement with KushCo Holdings Co. Inc. (“KushCo”) whereby the Company issued 10,600.3 proportionate voting shares at a share price of \$380CAD (\$290) for total consideration of \$3,273,101 in exchange for 1,653,081 shares of KushCo valued at the fair value of the KushCo shares at the time of receipt. On completion of the share swap, KushCo became a 19.9% shareholder of the Company.

In November and December 2020, the Company sold 1,257,839 shares of the KushCo stock for net proceeds of approximately \$994,000.

Servicing Equipment and Spare Parts Inventory Divestitures

During the year ended December 31, 2020, the Company sold excess servicing equipment and spare parts inventory to both third party buyers and the Company's original supplier of servicing equipment, Khrysos Global Inc. ("Khrysos"). The total of these transactions resulted in the Company reducing the net book value of servicing equipment and inventory by approximately \$927,000, receiving gross proceeds of approximately \$605,000 and recognizing losses of approximately \$322,000.

Acquisition

In July 2020, the Company acquired all of the outstanding shares of CA Licensed Lenders LLC for its California lenders license in exchange for 450,761 common shares of the Company. The common shares were valued at \$0.29CAD (\$0.21) on the date of the acquisition resulting in total consideration of \$96,237 plus transaction costs of \$13,651.

Components of Our Results of Operations

Financing Income and Operating Lease Revenue

Financing Income and Operating Lease Revenue represents revenue earned on the financing component of lease transactions and leases not deemed as financing leases. Starting in 2020, the Company has shifted to predominantly entering lease arrangements that generate financing income only.

Equipment and sales-type financing revenue, Cost of sales and Gross profit

Equipment revenue represents revenue derived equipment sales and leasing of previously capitalized equipment on a gross basis only in the normal course of business. As a manufacturer or dealer, the Company recorded leases as sales-type financing leases resulting in the recognition of revenue on acceptance, usually automatic after delivery, installation and testing. Starting in 2020, the Company shifted exclusively into lease arrangements that generate financing income and no longer meets the definition of a manufacturer or dealer.

Cost of sales represents those costs directly attributable to the generation of our equipment and sales-type financing revenue, and primarily includes equipment costs for the purchase and leasing of servicing equipment, personnel costs, including salaries and benefits, supplies, maintenance and repairs. Cost of sales also includes non-cash items such as depreciation of the Company's servicing equipment.

Gross profit is calculated as equipment and sales-type financing revenue less cost of sales.

Operating Expenses

Operating expenses consist of administrative, selling and marketing costs. Administrative expenses primarily represent contractor costs, personnel costs, including salaries, benefits, incentive-based non-cash compensation, management fees and other professional service costs, including legal and accounting, to support Company operations. Selling and marketing costs primarily represent marketing activities, commissions, trade shows, contractor costs and personnel costs, including a portion of salaries, benefits and marketing activities related to customer acquisition.

Other (Income) Expense

Other (income) expense consists of (i) financing interest expense on notes payable and convertible debentures, (ii) non-cash interest expense for debt issuance costs and debt discounts related to the issuance of our convertible debentures, (iii) listing expense (iv) gains and losses on the sale of servicing equipment and property and equipment, (v) mark-to-market changes in the fair value of embedded derivatives within the convertible debentures, (vi) mark-to-market changes in the fair value of the Company's investment in KushCo and (vii) impairment loss of the Company's mutual exclusivity and intellectual property intangible asset as a result of Company's termination of the joint venture and corresponding purchase commitments agreement with Khrysos.

Income Taxes (Recovery)

The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2020 as compared to the Three Months Ended December 31, 2019

The following table sets forth selected financial information for the periods indicated that was derived from our audited financial statements and the respective accompanying notes prepared in accordance with IFRS.

	Three months ended December 31,	
	2020	2019
Equipment and sales-type financing revenue	\$ -	\$ 536,531
Cost of sales	\$ -	\$ 712,461
Gross loss	\$ -	\$ (175,930)
Financing income and operating lease revenue	\$ 310,697	\$ 117,793
Operating expenses	\$ 913,553	\$ 1,052,712
Other expense	\$ 123,753	\$ 1,146,785
Income tax recovery	\$ -	\$ (384,000)
Net loss	\$ (726,609)	\$ (1,873,634)
Loss per share - basic and diluted	\$ (0.01)	\$ (0.04)
Weighted average shares outstanding - basic and diluted	54,882,906	48,210,200

Equipment and Sales-Type Financing Revenue

Equipment and sales-type-financing revenues for three months ended December 31, 2020 were \$nil compared with \$536,531 for three months ended December 31, 2019. The decrease of \$536,531 for three months ended December 31, 2020 as compared to 2019 was attributable to no sale-type lease revenue in 2020 as a result of the Company no longer meeting the definition of a manufacturer or dealer resulting in only the recognition of financing income earned on lease revenue in 2020.

Cost of Sales and Gross Loss

Cost of sales for three months ended December 31, 2020 were \$nil compared with \$712,461 for three months ended December 31, 2019. The decrease for three months ended December 31, 2020 as compared to 2019 was primarily attributable to a decrease of approximately \$443,000 of equipment costs associated with sales-type financing lease purchased and expensed in 2019, and a decrease of approximately \$107,000 of a non-cash equipment impairment loss in 2019. The remaining decrease is attributable to the elimination of compensation and benefits costs and equipment depreciation expense associated with being a manufacturer or dealer.

Gross loss for three months ended December 31, 2020 was \$nil compared to a loss of \$(175,930) for three months ended December 31, 2019. The reduction in gross loss to \$nil is a result of the Company's strategic change in focus from a manufacturer or dealer of equipment to a equipment leasing Company.

Financing Income and Operating Lease Revenue

Financing income and operating lease revenue for three months ended December 31, 2020 were \$310,697 compared with \$117,793 for three months ended December 31, 2019. The increase of \$192,904, or 164%, for three months ended December 31, 2020 as compared to 2019 was attributable to revenue recognized from financing income associated with 15 new financing leases between 5 customers in 2020. This increase was partially offset by a decrease in operating lease revenue resulting from all operating leases terminating or completing in 2020.

Operating Expenses

Operating expenses for three months ended December 31, 2020 were \$913,553 compared with \$1,052,712 for three months ended December 31, 2019. The following table presents the components of operating expenses:

	Three months ended	
	December 31,	
	2020	2019
Administrative expenses:		
Personnel and contractor costs	\$ 148,081	\$ 77,238
Professional fees	108,885	561,514
Incentive compensation	26,993	177,208
Occupancy expenses	(48)	6,875
Management fee	341,001	86,001
Other	318,123	95,846
Total administrative expenses	943,035	1,004,682
Selling and marketing expenses:		
Personnel and contractor costs	\$ (72,178)	\$ 28,105
Marketing and trade shows	4,267	19,139
Professional fees	37,539	-
Other	890	786
Total selling and marketing expenses	(29,482)	48,030
	<u>\$ 913,553</u>	<u>\$ 1,052,712</u>

Administrative expenses for three months ended December 31, 2020 were \$943,035 compared with \$1,004,682 for three months ended December 31, 2019. The decrease of \$61,647 for the three months December 31, 2020, as compared to 2019 was primarily attributable to the decrease in professional fees of approximately \$453,000 related to legal, audit, tax and internal accounting costs from 2019, including costs associated with preparing for the reverse acquisition, subsequent receipts debenture financing and the Company to be publicly traded. To a lesser degree the decrease is attributable to a reduction in non-cash incentive compensation. The above decreases are partially offset by an increase in the use of third-party contactors and employees, and the management fee charged from a related party for day-to-day executive management and support to the Company.

Selling and marketing expenses for three months ended December 31, 2020 were \$(29,482) compared with \$48,030 for three months ended December 31, 2019. The decrease of \$77,512 for the three months ended December 31, 2020, as compared to 2019 was primarily attributable to a reclass in the fourth quarter to capitalize \$108,000 of previously recorded commission expense as a financing receivable asset.

Other (Income) Expense

Other (income) expense for three months ended December 31, 2020 were \$123,753 compared with \$1,146,785 for three months ended December 31, 2019. The decrease in other expense of \$1,023,032 for three months ended December 31, 2020 as compared to 2019 was attributable to decreases of approximately \$385,000 in the losses on the sale of servicing equipment from 2019 to 2020, and a 2019 non-cash impairment loss of approximately \$472,000 on the impairment of the Company's mutual exclusivity and intellectual property intangible asset as a result of Company's termination of the joint venture and corresponding purchase commitments agreement with Khrysos in November 2019. The decrease from 2019 to 2020 also resulted from a net gain of approximately \$256,000 in the fourth quarter of 2020 from sale of the KushCo investment resulting from the reversal of previously recognized unrealized losses of approximately \$1,758,000, netted against the recognition of a realized loss of approximately \$1,502,000.

Income Tax (Recovery) Expense

Income taxes for three months ended December 31, 2020 were \$nil compared with an income tax benefit of \$(384,000) for three months ended December 31, 2019.

Net Loss(Income)

The Company's loss for three months ended December 31, 2020 was \$(726,609) compared to a loss of \$(1,873,634) for three months ended December 31, 2019. The Company anticipates further improvement in losses throughout 2020 due to the increase in new leasing activity, curtailment of excess equipment sales, significant cost reduction initiatives and the absence of costs related to the reverse acquisition.

Year Ended December 31, 2020 as compared to the Year Ended December 31, 2019

The following table sets forth selected financial information for the periods indicated that was derived from our audited financial statements and the respective accompanying notes prepared in accordance with IFRS.

	Year ended December 31,	
	2020	2019
Equipment and sales-type financing revenue	\$ -	\$ 1,959,418
Cost of sales	\$ -	\$ 2,616,203
Gross loss	\$ -	\$ (656,785)
Financing income and operating lease revenue	\$ 676,460	\$ 330,399
Operating expenses	\$ 2,628,521	\$ 4,149,579
Other expense	\$ 3,101,261	\$ 2,853,906
Income tax recovery	\$ -	\$ (383,025)
Net loss	\$ (5,053,322)	\$ (6,946,846)
Loss per share - basic and diluted	\$ (0.10)	\$ (0.18)
Weighted average shares outstanding - basic and diluted	53,145,555	37,562,660
	December 31,	
	2020	2019
Total assets	\$ 7,293,996	\$ 4,474,606
Total liabilities	\$ 6,759,918	\$ 3,549,613

Equipment and Sales-Type Financing Revenue

Equipment and sales-type-financing revenues for the year ended December 31, 2020 were \$nil compared with \$1,959,418 for the year ended December 31, 2019. The decrease of \$1,959,418 for the year ended December 31, 2020 as compared to 2019 was attributable to a reduction of approximately \$1,016,000 in equipment sales and \$930,000 in revenue from sales-type financing lease. The decrease in equipment sales is attributable to a one-time sale to a single customer in 2019 and starting in 2020 the Company no longer sells equipment directly to customers. The decrease in sale-type lease revenue resulted from the Company no longer meeting the definition of a manufacturer or dealer resulting in only the recognition of financing income earned on lease revenue in 2020.

Cost of Sales and Gross Loss

Cost of sales for the year ended December 31, 2020 were \$nil compared with \$2,616,203 for the year ended December 31, 2019. The decrease for the year ended December 31, 2020 as compared to 2019 was primarily attributable to a decrease of approximately \$1,004,000 of equipment costs associated with sales-type financing lease purchased and expensed in 2019, and a decrease of approximately \$649,000 of equipment purchases made in 2019 related to the direct sale of equipment to a single customer.

Additionally, there were decreases of approximately \$771,000 related to depreciation and amortization expense and compensation and related expenses for personnel providing services to customers.

Gross loss for the year ended December 31, 2020 was \$nil compared to a loss of \$(656,785) for the year ended December 31, 2019. The reduction in gross loss to \$nil is a result of the Company's strategic change in focus from a manufacturer or dealer of equipment to a equipment leasing Company.

Financing Income and Operating Lease Revenue

Financing income and operating lease revenue for the year ended December 31, 2020 were \$676,460 compared with \$330,399 for the year ended December 31, 2019. The increase of \$346,061, or 105%, for the year ended December 31, 2020 as compared to 2019 was attributable to approximately \$525,000 increase in revenue recognized from financing income associated with 15 new financing leases between 5 customers entered into in 2020. This increase was partially offset by a decrease in operating lease revenue resulting from all operating leases terminating or completing in 2020.

Since focusing on its financing income and operating lease revenue the Company has seen continual quarterly growth of over the years ended December 31, 2020 and 2019, as broken out quarterly below:

Q1 2020	Q2 2020*	Q3 2020	Q4 2020	Total 2020
\$199,862	\$72	\$165,829	\$310,697	\$676,460

Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total 2019
\$24,868	\$97,559	\$90,179	\$117,793	\$330,399

**During the second quarter of 2020, the Company recorded an adjustment related to a change in payment terms of an existing lease which resulted in a reduction of financing income of \$103,695 for Q2 2020.*

Operating Expenses

Operating expenses for the year ended December 31, 2020 were \$2,628,521 compared with \$4,149,579 for the year ended December 31, 2019. The following table presents the components of operating expenses:

	Year ended December 31,	
	2020	2019
Administrative expenses:		
Personnel and contractor costs	\$ 389,876	\$ 360,047
Professional fees	549,702	2,213,209
Incentive compensation	341,324	641,191
Occupancy expenses	23,786	52,932
Management fee	487,201	346,401
Other	527,292	319,733
Total administrative expenses	<u>2,319,181</u>	<u>3,933,513</u>
Selling and marketing expenses:		
Personnel and contractor costs	\$ 200,809	\$ 95,392
Marketing and trade shows	83,360	69,205
Professional fees	22,315	49,083
Other	2,856	2,386
Total selling and marketing expenses	<u>309,340</u>	<u>216,066</u>
	<u>\$ 2,628,521</u>	<u>\$ 4,149,579</u>

Administrative expenses for the year ended December 31, 2020 were \$2,319,181 compared with \$3,933,513 for the year ended December 31, 2019. The decrease of \$1,614,332 in the year ended December 31, 2020, as compared to 2019 was primarily attributable to the decrease in professional fees of approximately \$1,663,000 related to legal, audit, tax and internal accounting costs from 2019, including costs associated with preparing for the reverse acquisition, subsequent receipts debenture financing and the Company to be publicly traded. The decrease includes approximately \$1,120,000 of non-cash professional fees related to issuance of stock and warrants to advisors and brokers in the year ended December 31, 2019. To a lesser degree the decrease is attributable to a reduction in non-cash incentive compensation related to increased expense recognized in 2019 associated with cancelled stock options that accelerated vested. The above decreases are partially offset by an increase in the use of third-party contactors and employees, and the management fee charged from a related party for day-to-day executive management and support to the Company.

Selling and marketing expenses for the year ended December 31, 2020 were \$309,340 compared with \$216,066 for the year ended December 31, 2019. The increase of \$93,274 in the year ended December 31, 2020, as compared to 2019 was primarily attributable to an increase of approximately \$105,000 in personnel and contractor costs as the Company has increased its sales initiatives related to leasing activities throughout 2020.

Other (Income) Expense

Other (income) expense for the year ended December 31, 2020 were \$3,101,261 compared with \$2,853,906 for the year ended December 31, 2019. The increase in other expense of \$247,355 for the year ended December 31, 2020 as compared to 2019 was attributable to an increase of approximately \$1,963,000 related to the Company's 2020 realized and unrealized losses in the KushCo investment, and a decrease in fair value gains from 2019 of approximately \$889,000 related to the derivative liabilities and the Company's change in functional currency. The above increase are partially offset by reductions of (i) approximately \$1,169,000 of non-cash accretion expense associated with debt issuance costs, and debt discounts on our term loans and convertible debt, (ii) approximately \$252,000 of interest expense on our term loans and convertible debt, (iii) approximately \$348,000 of losses on the sale of servicing equipment and property and equipment, (iv) approximately \$363,000 of non-cash listing expense for the excess of purchase price paid over nets assets acquired for the Caracara reverse acquisition and (v) approximately \$472,000 non-cash impairment loss on the impairment of the Company's mutual exclusivity and intellectual property intangible asset as a result of Company's termination of the joint venture and corresponding purchase commitments agreement with Khrysos in November 2019.

Income Tax (Recovery) Expense

Income taxes for the year ended December 31, 2020 were \$nil compared with an income tax benefit of \$(383,025) for the year ended December 31, 2019.

Net Loss (Income)

The Company's loss for the year ended December 31, 2020 was \$(5,053,322) compared to a loss of \$(6,946,846) for the year ended December 31, 2019. The Company anticipates further improvement in losses throughout 2021 due to the increase in new leasing activity, curtailment of excess equipment sales, significant cost reduction initiatives and the absence of costs related to the reverse acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company's liquidity needs are primarily to finance growth initiatives including equipment acquisition, leasing activities, debt service and for general corporate purposes. The Company's primary source of liquidity to date has been funds generated by private financing via convertible debentures and term loans. The Company has been generating revenue from operations since the third quarter of 2018. The Company's ability to fund its operations, make planned capital expenditures, satisfy scheduled debt payments and repay or refinance indebtedness depends on the Company's future operating performance and cash flows. These cash flows are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control (see "*Financial Instruments and Financial Risk Management*").

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout Canada and the United States. The spread of COVID-19 has caused significant volatility in Canadian, U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the Canadian, U.S. and international economies and, although the Company has not experienced any material impact on its operations to date, the Company is unable to determine if it will have a future material impact to its operations or ability to raise funds.

As of December 31, 2020, the Company had \$545,990 of cash, working capital (deficit) (current assets minus current liabilities) of \$(2,079,684) and an accumulated deficit of \$(18,639,943) compared with \$2,487,293 of cash, working capital of \$1,802,038 and an accumulated deficit of \$(13,586,621) as of December 31, 2019. The decrease in working capital by \$(3,881,722) was primarily attributable to the increase in trade payables and accrued equipment purchases related to new financing leases as well as the ongoing funding of operations. The increase in accumulated deficit \$(5,053,322) was primarily attributable to the funding of operations and non-cash charges related to the realized and unrealized losses on the fair value change of the KushCo investment, amortization of debt issuance costs and discounts and non-cash compensation.

The Company anticipates incurring additional losses until such time that it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements.

Cash Flows

The following table sets forth the primary sources and uses of cash for the year ended December 31, 2020 and 2019:

	Year ended December 31,	
	2020	2019
Cash flows (used in) operating activities	\$ (3,476,187)	\$ (3,458,029)
Cash flows provided by investing activities	\$ 1,347,226	\$ 1,565,433
Cash flows provided by financing activities	\$ 205,762	\$ 3,870,426

Cash Flow from Operating Activities

Net cash used in operating activities for the year ended December 31, 2020 was \$(3,476,187) primarily due to a (i) loss for the period of \$(5,053,322) and (ii) the change in non-cash working capital items related to financing leases of \$(2,251,667). The above decreases were offset in part by non-cash adjustments of \$3,423,377 including realized and unrealized losses on mark-to-market fair value change of investments, accretion of debt issuance costs and discounts, depreciation and non-cash incentive compensation.

Net cash used in operating activities for the year ended December 31, 2019 was \$(3,458,029) primarily due to a loss for the period of \$(6,946,846), offset in part by non-cash adjustments of \$3,884,243 including issuance of warrants and debentures for services, accretion of debt issuance costs and discounts, impairment losses, listing expense, depreciation, amortization, non-cash compensation and incentive compensation, partially offset by a gain on sale of servicing equipment, recognition of non-cash lease income, addition of servicing equipment for finance leases and changes in fair value of derivative liabilities.

Cash Flow from Investing Activities

Net cash provided by investing activities for the year ended December 31, 2020 of \$1,347,226 was attributable to (i) \$993,890 and \$605,205 of proceeds received from the sale of investments and equipment, respectively, offset by \$(251,869) of equipment purchases.

Net cash provided by investing activities for the year ended December 31, 2019 of \$1,565,433 was attributable to \$698,858 of cash acquired as part of the reverse acquisition with Caracara and proceeds of \$867,755 received from the sale of plant and equipment, offset in part by \$(1,180) for the purchase of property and equipment.

Cash Flow from Financing Activities

Net cash provided by investing activities for the year ended December 31, 2020 was \$205,762 and was attributable to \$805,762 of proceeds received from the Company's line of credit (\$750,000) and from the U.S. government's Paycheck Protection Program ("PPP") via the Coronavirus Aid, Relief, and Economic Security ("CARES") Act loan borrowings (\$55,762) partially offset by \$600,000 repayment of the Company's term loan with a related party.

Net cash provided by financing activities for the year ended December 31, 2019 was \$3,870,426 and consisted primarily of proceeds from loans and borrowings, specifically Sub Receipt debentures of \$4,472,085 and term loans of \$1,100,000, offset in part by the repayment of the \$1,100,000 of term loans and payment of debt issuance and deferred financing costs.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company may be subject to contractual obligations to make future payments in relation to contracts or other financial commitments. As of December 31, 2020, the Company is not aware of any legal or financial contractual obligations or financial commitments outside of its loans and borrowings and related party management services agreement.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company has no material undisclosed off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources that are material to investors.

RELATED PARTY TRANSACTIONS

Related parties include officers and employees of the Company that are investors, debt holders and the Company's former provider of servicing equipment.

Key Management and Personnel

Key employees include executive management with the authority and responsibility for planning, directing and controlling the activities of the Company. The following table presents compensation and benefit expenses of key employees:

	Year ended December 31,	
	2020	2019
Salaries, contractor costs, management fees and benefits	\$ 668,508	\$ 473,475
Incentive compensation (non-cash)	63,385	371,374
	<u>\$ 731,893</u>	<u>\$ 844,849</u>

Related Party Loans and Borrowings

As of December 31, 2020 and 2019, the Company had loans and borrowings due to Archytas of \$nil and \$600,000, respectively. In December 2020, the term loan was repaid in full. In January, February, March and April 2019, the Company received additional funding of \$1,100,000 in the form of the 2019 term loans from Archytas with maturity dates ranging from September 2019 to February 2020 (Note 16). In November 2019, the Company repaid Archytas the 2019 term loans in full.

Related Party Transactions and Amounts Due to Related Parties

The following table presents expenses incurred on behalf of the Company by Archytas and assets purchased from Khrysos:

Amounts due to related parties at December 31, 2018	\$	118,654
Interest expense		262,457
Management fee		346,401
Operating expenses		90,225
Prepaid equipment purchases		283,228
Conversion of accrued interest to common stock		(15,713)
Less payments to related parties		<u>(1,085,252)</u>
Amounts due to related parties at December 31, 2019	\$	<u>-</u>
Amounts due to related parties at December 31, 2019	\$	-
Interest expense		86,129
Management fee		146,200
Management fee bonus		255,000
Operating expenses		1,486
Less payments to related parties		<u>(232,329)</u>
Amounts due to related parties at December 31, 2020	\$	<u>256,486</u>

Related Party Purchase Commitments

The Company had the option to purchase extraction equipment from Khrysos, and in the past, did so under mutual exclusivity that required minimum purchases to remain in effect. However, throughout 2019, the Company expanded its range of product offerings to include other vendors in order to provide tailored, end-to-end solutions for customers, and accordingly no longer maintained the mutual 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. 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.

Related Party Management Services Agreement

Effective January 2019, the Company entered into a management services agreement with Archytas at a monthly rate of \$28,667 and a term of five years, with one-year automatic renewals, whereby Archytas will provide day-to-day executive management and support to the Company. Archytas is a shareholder of the Company, having been involved in the initial formation of XSI. In addition, two officers and directors of the Company are partners of Archytas. In May and June 2020, the Company lowered the monthly rate to \$20,067 as part of a 30% cost reduction to the Company's management team, employees and external consultants in exchange for the issuance of stock options. In June 2020 the management services agreement was amended to reduce the monthly rate to \$nil for July, August, and September 2020. In December 2020, the management services agreement was amended to adjust the form of compensation to common stock for October, November and December 2020. As a result, the Company issued 600,855 of common shares to Archytas, and recorded \$86,000 of management fee expense, for the

year ended December 31, 2020. In March 2021, the Company authorized the issuance of 1,071,255 common shares and accrued \$255,000 of management fee expense as a bonus for 2020 services. The agreement cannot be terminated until Archytas holds less than 5% of the fully diluted capital stock of the Company. As at December 31, 2020 and 2019, Archytas held 19.4% and 25.5%, respectively of outstanding voting shares of the Company.

In conjunction with entering into this agreement the Company's CEO and COO terminated their employment agreements with the Company. Additionally, Archytas will receive a fee for services provided on a successful acquisition, merger or change of control of the Company valued at 2% of the enterprise value of such transaction.

The Company is party to certain management contracts. These contracts require payments of \$746,000 upon the occurrence of a change in control of the Company, as defined by each officer's respective consulting agreement. As a triggering event has not taken place, the contingent payments have not been reflected in the audited consolidated financial statements.

Related Party Sales

In March and April 2019, the Company entered into rental lease agreements to lease extraction machines and other ancillary processing equipment to Carolina Botanical Development, LLC ("CBD LLC"). CBD LLC is a related party to the Company as a result of a shareholder of the Company also being an owner of CBD LLC. As part of the March 2019 lease agreement, CBD LLC paid \$100,000 owed to a related party of the Company, on behalf of the Company. As of December 2020, both lease arrangements are completed.

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New standards adopted

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In October 2018, IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The interpretation is effective for annual periods beginning January 1, 2020. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standards for IAS 1 and IAS 8.

IFRS 3, Business Combinations

In October 2018, IFRS 3 – Business Combinations ("IFRS 3") was amended to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business,

if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The interpretation is effective for annual periods beginning January 1, 2020. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standard for IFRS 3.

New standards and interpretations to be adopted in future periods

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under *IAS 1* based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023. Earlier adoption is permitted. The Company will adopt these amendments as of their effective date, and is currently assessing the impacts on adoption.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets (“IAS 37”) was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022. Earlier adoption is permitted. The Company will adopt these amendments as of their effective date, and is currently assessing the impacts on adoption.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company’s financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the interim condensed consolidated financial statements are described below.

Depreciation and Amortization of Servicing Equipment, Property and Equipment, and Intangible Assets and Estimate of Useful Lives

Depreciation and amortization of servicing equipment and property and equipment is dependent upon estimates of useful lives. The Company estimates the useful lives of these assets based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets.

Long-Lived Assets and Impairment

Long-lived assets, such as servicing equipment and property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company estimates its recoverable amount. An impairment loss is recognized to the extent the carrying value exceeds its recoverable amount. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Share-based Incentive Compensation

The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. The assumptions and models used for estimating fair value for share-based payment transactions is disclosed in Note 21 of the Company's financial statements. The expected volatility assumptions for the Company's option and warrant grants are based on both the Company's and comparable companies volatility.

Derivative Liabilities

Derivative liabilities are initially recognized at fair value on the date entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognized immediately as a component of other expense (income) in the condensed consolidated statements of loss and comprehensive loss. The fair value of the derivative liabilities are subject to measurement uncertainty due to the assumptions made for the inputs in the Black-Scholes option valuation.

Compound Financial Instruments

The initial recognition of the compound financial instruments requires that the liability component and the conversion feature are recognized separately. Judgement is required to determine whether the conversion feature meets the definition of equity or a derivative liability. The fair values at initial recognition is subject to measurement uncertainty.

Functional Currency Determination

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates.

Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21. The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional

currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

Determination of Discount Rates

Determination of the discount rate for term loans and convertible debentures is based on comparison to similar interest bearing debt instruments of a group of comparative companies.

Determination of Financing Lease or Operating Lease

In making the determination of whether an arrangement should be accounted for as a financing lease or an operating lease, the Company makes certain assumptions including, the interest implicit in the lease and the residual value of the equipment at the end of the lease.

Expected Credit Losses

Allowance for credit losses

The Company measures loss allowances based on an expected credit loss ("ECL") impairment model for all financial instruments except those measured at fair value through profit and loss. Application of the model depends on the following credit stages of the financial assets:

- (i) Stage 1 - for new leases recognized and for existing leases that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months;
- (ii) Stage 2 - for those leases that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected over the remaining life of the lease; and
- (iii) Stage 3 - for leases that are considered to be credit-impaired, a loss allowance equal to full life time ECLs is recognized.

Thus, the evaluation of the allowance for credit losses is performed on a lease by lease basis. Definitions of default have been selected to eliminate the judgement that may otherwise be necessary, given the diversity within the finance receivable portfolio, the lack of individual drivers of changes in credit risk across assets and over time, and the resulting inability to assess which specific assets will be rectified. For the purposes of measuring ECL, a default is defined as leases and loans that have missed one payment and are not subsequently rectified within 60 days.

The Company is entitled to repossess financed equipment if the borrower defaults on their lease obligations. Any amounts recovered from the sale of repossessed equipment are credited to the allowance for credit losses when received.

The process of estimating ECLs uses the following inputs and assumptions to reflect information about past events, current conditions and forecasts of future conditions that are not already captured in the inputs:

- Recoveries of amounts previously written off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects of natural disasters and economic shocks that have occurred on credit losses in the next 12 months;

- The stage of the business cycle for the industry, which considers: the competitive environment, GDP growth, prevailing interest rates and expectations of future rates, fiscal policy and inflation rates; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

Determining the inputs listed and ECLs requires significant estimation uncertainty. The estimation and application of forward-looking information requires significant judgement.

Definition of a Business

Determination of whether a set of assets acquired, and liabilities assumed constitute a business under IFRS 3 requires the Company to make certain judgments, taking into account all facts and circumstances.

Income, Value Added, Withholding and Other Taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company is also subject to tax regulations as they relate to flow-through financing arrangements. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company categorizes its financial assets and liabilities measured and reported at fair value in the financial statements on a recurring basis based upon the level of judgments associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs used to determine the fair value of financial assets and liabilities, are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

Each major category of financial assets and liabilities measured at fair value on a recurring basis is categorized based upon the lowest level of significant input to the valuations. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash, trade and other receivables and financing receivables. The Company does not have significant credit risk with respect to customers. All cash is placed with recognized U.S. financial institutions. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. The Company has not recognized any loss allowance for expected credit losses on the trade and other receivables and financing receivables as of December 31, 2020.

The Company is entitled to repossess financed equipment if the lessee defaults on their contract in order to minimize any credit losses.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

At December 31, 2020, the Company had current assets of \$2,396,344 and current liabilities of \$4,476,028. All current liabilities are due within one year.

At December 31, 2020, the Company also has the following obligations due:

	<u>Less than 6 months</u>	<u>6 months to 1 years</u>	<u>1 to 3 years</u>	<u>Over 3 years</u>
Trade and other payables	\$ 2,264,139	\$ -	\$ -	\$ -
Accrued expenses	1,149,641	-	-	-
Loans and borrowings ⁽¹⁾	-	-	805,762	4,304,721
	<u>\$ 3,413,780</u>	<u>\$ -</u>	<u>\$ 805,762</u>	<u>\$ 4,304,721</u>
Commitments	-	-	-	-
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note to the table:

(1) Represents undiscounted loans and borrowings.

Market Risk

Currency Risk

The Company has determined its functional currency to be the Canadian dollar and U.S. dollar. The operating results and financial position of the Company are reported in U.S. dollars. The Company has minimal financial transactions denominated in currencies other than the Canadian and U.S. dollar. The

Company has no hedging agreements in place with respect to foreign exchange rates. The following table presents financial instruments in CAD currency subject to currency risk:

	December 31,	
	2020	2019
Tax receivable	\$ 8,836	\$ 53,345
Trade payable	\$ 69,128	\$ 50,070
Loans and borrowings ⁽¹⁾	\$ 5,668,000	\$ 5,721,000

Note to the table:

(1) Represents convertible debentures and sub receipt convertible debentures.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's line of credit is subject to fluctuations in interest rates and therefore exposes the Company to interest rate fair value risk. The remainder of the Company's financial debt and lease receivables have fixed rates of interest resulting in limited interest rate fair value risk for the Company.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to equity price risk associated with changes in the market value of its investments. The Company closely monitors equity prices to determine the appropriate course of action to be taken. A 10% change in the quoted market of investments would result in a change of approximately \$32,000 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

Disclosure Controls and Procedures

The Company's management, with the participation of its President and CEO and CFO, have evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the certifying officers have concluded that, as of the end of the year covered by this report, the disclosure controls and procedures effectively provide reasonable assurance that information required to be disclosed, in reports the Company is required to file or submit under Canadian securities laws, was recorded, processed, summarized and reported within the appropriate time periods specified by those laws. The Company's certifying officers, being the President and CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and procedures. The certifying officers also concluded that material information was accumulated and communicated to management of the Company, including the President and CEO and the CFO, as appropriate to allow timely decisions regarding disclosure.

Internal Controls over Financial Reporting

The Company's President and CEO, and the CFO are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the President and CEO and the CFO, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes, in accordance with IFRS. The Company's internal control over financial reporting includes policies that:

- pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the consolidated financial statements in accordance with IFRS and that the Company's receipts and disbursements are made only in accordance with authorizations of management and the Company's Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

The Company's management believes that its policies and procedures provide the best controls achievable under the constraints described above, subject to the limitations below.

Limitation of Controls and Procedures

The Company's management including the President and CEO and the CFO believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. The inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can be circumvented by the individual acts of some persons, by collusion of two or more individuals or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and therefore there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Accounting Responsibilities, Procedures and Policies

The Board of Directors, which among other things is responsible for the consolidated financial statements of the Company, delegates to management the responsibility for the preparation of the consolidated financial statements. Responsibility for their review rests with the Audit Committee. Each year the shareholders appoint independent auditors to audit and report directly to them on the consolidated financial statements.

The Audit Committee is appointed by the Board of Directors and all of its members are non-management directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues, and to confirm that all administrative duties and responsibilities are properly discharged. The Audit Committee also reviews the consolidated financial statements and MD&A and considers the engagement or reappointment of external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when approving the consolidated financial statements for issuance to the shareholders. The external auditors have full and free access to the Audit Committee.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain “forward-looking information” as defined in applicable securities laws. These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking in nature. The forward-looking information in this MD&A speak only as of the date of this MD&A or as of the date specified in such statements.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 33,327,724 common shares, 23,107 proportionate voting shares, 7,375,077 warrants and 4,685,583 stock options issued and outstanding.

SUBSEQUENT EVENTS

Syndication Platform and Issuance of Note payable

In February 2021, the Company launched its syndication platform and entered into six separate promissory note agreements with a third-party lender totaling \$1,000,000 with maturity dates ranging from June 2024 to December 2024. The promissory notes bear interest at a rate of 12% per annum, payable monthly. Each promissory note is secured by the lease payment streams and the underlying equipment of certain finance leases the Company has entered into with customers.

Private placement issuance

In February and March 2021, the Company received gross proceeds of approximately \$10,700,000, including approximately \$1,250,000 from Archytas, net of issuance costs of approximately \$785,000, from the issuance of 39,259,731 units at a price \$0.30CAD (\$0.24) and 5,251 proportionate voting units at a price \$300CAD (\$238). Each unit consists of one common share and one warrant. The warrants to be received have an exercise price of a \$0.45CAD (\$0.36) and \$450CAD (\$360) for the units and proportionate voting units, respectively, and have a two-year term.

In connection with the private placement the Company issued an additional 2,353,400 warrants to brokers and agents which entitled the holder to acquire one unit at a price of \$0.30CAD (\$0.24) for a period of two years from the date of issuance, and an aggregate of 1,450,000 units in satisfaction of a corporate finance fee. Each unit consists of one common share and one warrant. The warrants to be received have an exercise price of a \$0.45CAD (\$0.36) and have a two-year term.

Share issuance

In March 2021, the Company issued 1,988,891 common shares at share prices ranging between \$0.30CAD (\$0.24) and \$0.37CAD (\$0.30), based on the value of the services provided, to consultants and a related party (Archytas) (Note 22), as consideration for services performed.

Stock option grant

In March 2021, the Company granted 1,880,180 of options to employees, directors and consultants of the Company with an exercise price of \$0.33CAD (\$0.26). The options have a term of five years, with vesting terms either immediately or over three years.