MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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 three and nine months ended September 30, 2021 and 2020. 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 unaudited interim condensed consolidated financial statements and the accompanying notes for the three and nine months ended September 30, 2021 and 2020, and the audited financial statements for the years ended December 31, 2020 and 2019 together with the notes thereto. The interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, 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 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 November 29, 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 condensed 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 $20,152,224 and $18,639,943 as of

September 30, 2021 and December 31, 2020, 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 condensed 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 condensed 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.

On July 7, 2021, the Company established XSF SPC, LLC (" XSF SPC"), a Delaware limited liability company wholly owned by XSF, and utilized as a special purpose vehicle for the purpose of funding new leases under a $15,000,000 credit facility entered into in September of 2021.

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. The Company books revenue that is derived from financing income earned on the financing component of lease transactions and operating leases. Financing income is the interest earned by the Company on our lease arrangements.

During the quarter ended September 30, 2021, the Company saw an increased customer count and completed 14 lease transactions with publicly-traded and private cannabis companies including Columbia Care Inc. ("Columbia Care"), Ayr Wellness Inc., ("Ayr Wellness"), Green Peak Industries LLC ("Skymint Brands"), and an undisclosed confidential company. During this period, the Company originated over $13,200,000 million of leases. For comparison, the Company added two (2) new customers and completed 3 new lease transaction totaling approximately $605,000 during the same period in 2020.

Syndication Platform and Issuance of Note payables

In February 2021, the Company launched its syndication platform by way of entering into promissory note agreements ("syndication notes") with third-party lenders totaling $5,415,000 with maturity dates ranging from April 2024 to July 2025. The syndication notes bear interest at rates between 10.25% and 12% per annum, payable monthly. Each syndication 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 Equity Issuance

In February and March 2021, the Company received gross proceeds of approximately $13,350,000CAD ($10,595,000), including approximately $1,575,300 CAD ($1,250,000) from a related party, Archytas, net of issuance costs of approximately $864,000CAD ($681,000), 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.

Credit facility

In September 2021, the Company entered into a secured term loan credit facility ("credit facility"), with a maximum borrowing base of $15,000,000 and required monthly interest payments with all unpaid principal and interest due in September 2023. The maturity date of September 2023 can be extended automatically for successive 12-month periods upon mutual agreement by both the Company and the lender. The credit facility bears interest at an annual rate equal to the Wall Street Journal Prime plus 8.5% with a prime rate floor of no less than 3.25%. The credit facility is subject to monthly financial covenants such as maintaining a minimum tangible net worth, EBITDA and default rates such as defined in the agreement. Additionally, the Company is subject to borrowing requirements whereby the minimum outstanding balance of the credit facility must equal or exceed $2,500,000 90 days after the effective date of the credit facility agreement, and $7,500,000 one year after the effective date of the credit facility agreement and thereafter during the remaining term or the credit facility agreement. The Company was in compliance with its financial covenants as of September 30, 2021.

Under the credit facility, the Company sells financing arrangements ("finance receivables') to XSF SPC, LLC ("SPC"), a wholly-owned limited liability company of XSF. In turn, SPC grants, without recourse, a senior undivided interest in the financed receivables and the underlying equipment to the lender in exchange for cash while maintaining a subordinated undivided interest, in the form of over-collateralization, in the leased receivables. The Company has agreed to continue servicing the receivables for SPC at market rates; accordingly, no servicing asset or liability has been recorded. Although SPC is a wholly-owned consolidated subsidiary of the Company, SPC is legally separate from the Company and its subsidiaries. Upon and after the sale or contribution of the lease receivables to SPC, such lease receivables are legally assets of SPC, and as such are not available to creditors of other subsidiaries or the parent company. Because SPC has the ability to prepay the credit facility at any time by making a cash payment and effectively repurchasing the lease receivables transferred pursuant to the credit facility, the transfers do not qualify for "sale" treatment on a consolidated basis under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement 125."

Components of Our Results of Operations

Revenue

The Company's revenue is derived from financing income earned on the financing component of lease transactions and operating leases.

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) gains and losses on the sale of servicing equipment and property and equipment and (iv) mark-to-market changes in the fair value of the Company's investment in Greenlane Holdings Inc. ("Greenlane" and formerly known as KushCo Holdings Company Inc. ("KushCo").

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

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 September 30,		Nine months ended September 30,	
	2021	**2020**	**2021**	**2020**
Revenue	$ 998,412	$ 165,829	$ 1,976,163	$ 365,762
Operating expenses	$ 1,160,486	$ 421,270	$ 2,701,703	$ 1,774,490
Other expense	$ 466,472	$ 622,390	$ 786,741	$ 2,977,508
Net loss	$ (628,546)	$ (877,831)	$ (1,512,281)	$ (4,386,236)
Loss per share - basic and diluted	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.08)
Weighted average shares outstanding - basic and diluted	103,882,966	54,589,706	92,686,601	52,563,488

	September 30, 2021	December 31, 2020
Total assets	$ 35,384,224	$ 7,293,996
Total liabilities	$ 25,287,922	$ 6,759,918

Three months ended September 30, 2021 as compared to the Three Months Ended September 30, 2020

Revenue

Revenues for the three months ended September 30, 2021 were $998,412 compared with $165,829 for the three months ended September 30, 2020. The increase of $832,583 for three months ended September 30, 2021 as compared to the same period in 2020 was attributable to revenue recognized from financing income associated with 45 new financing leases between 6 customers from 2020 to 2021.

Operating Expenses

Operating expenses for three months ended September 30, 2021 were $1,160,486 compared with $421,270 for three months ended September 30, 2020. The following table presents the components of operating expenses:

	Three months ended September 30,			
	2021		2020	
Administrative expenses:				
Personnel and contractor costs	$	297,349	$	87,972
Professional fees		274,260		160,272
Incentive compensation		409,844		28,829
Occupancy expenses		-		(1,857)
Insurance		56,824		45,131
Depreciation expense		4,402		18,987
Other		46,703		18,537
Total administrative expenses		1,089,382		357,871
Selling and marketing expenses:				
Personnel and contractor costs	$	59,119	$	32,597
Marketing and trade shows		11,392		5,591
Professional fees		-		11,259
Other		593		13,952
Total selling and marketing expenses		71,104		63,399
	$	1,160,486	$	421,270

Administrative expenses for three months ended September 30, 2021 were $1,089,382 compared with $357,871 for three months ended September 30, 2020. The increase of $731,511 for the three months ended September 30, 2021, as compared to same period in 2020 was primarily attributable to an increase of approximately $381,000 in non-cash incentive compensation expense related to the grant of 11,260,000 stock options in the third quarter of 2021 in accordance with the Company’s short and long-term incentive plan, and personnel and contractor costs increasing approximately $209,000 as a result of executive compensation paid for the first time in the third quarter of 2021 and the increased use of third-party contactors related to increased Company operations. Additionally, professional fees increased approximately $114,000 related to the Company’s growth, non-recurring projects and financing activities.

Selling and marketing expenses for three months ended September 30, 2021 were $71,104 compared with $63,399 for three months ended September 30, 2020. The increase of $7,705 for the three months ended September 30, 2021, as compared to the same period in 2020 was primarily attributable to increased personnel and contractor associated with higher payroll and commission expenses.

Other Expense

Other expense for three months ended September 30, 2021 was $466,472 compared with $622,390 for three months ended September 30, 2020. The decrease in other expense of $155,918 for the three months ended September 30, 2021 as compared to same period in 2020 was primarily attributable to a decrease in unrealized losses of approximately $271,000 related to fair value changes in the Company’s investment in Greenlane, and a decrease of approximately $84,000 related to losses recognized in 2020 on the sale of servicing equipment. The above decreases were partially offset by an increase of approximately $100,000 in financing and accretion expenses associated with new debt in 2021, and a realized loss of approximately $99,000 related to the sale of Greenlane stock.

Net Loss

The Company’s loss for three months ended September 30, 2021 was $(628,546) compared to a loss of $(877,831) for three months ended September 30, 2020. The Company anticipates further improvement in net income (loss) throughout 2021 due to the increase in new leasing activity.

Nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020

Revenue

Revenues for the nine months ended September 30, 2021 were $1,976,163 compared with $365,762 for the nine months ended September 30, 2020.The increase of $1,610,401 for nine months ended September 30, 2021 as compared to the same period in 2020 was attributable to revenue recognized from financing income associated with 45 new financing leases between 6 customers from 2020 to 2021. 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 nine months ended September 30, 2021 were $2,701,703 compared with $1,774,490 for nine months ended September 30, 2020. The following table presents the components of operating expenses:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Administrative expenses:		
Personnel and contractor costs	$ 612,809	$ 241,796
Professional fees	725,208	440,817
Incentive compensation	682,518	314,331
Occupancy expenses	-	23,834
Management fee	171,001	146,200
Insurance	170,430	152,451
Depreciation expense	13,528	89,994
Other	116,908	134,245
Total administrative expenses	2,492,402	1,543,668
Selling and marketing expenses:		
Personnel and contractor costs	$ 155,695	$ 112,992
Marketing and trade shows	48,448	79,093
Professional fees	-	18,476
Other	5,158	20,261
Total selling and marketing expenses	209,301	230,822
	$ 2,701,703	$ 1,774,490

Administrative expenses for nine months ended September 30, 2021 were $2,492,402 compared with $1,543,668 for nine months ended September 30, 2020. The increase of $948,734 for the nine months ended September 30, 2021, as compared to same period in 2020 was primarily attributable to an increase of approximately $368,000 in non-cash incentive compensation expense related to the grant of 11,260,000 stock options in the third quarter of 2021 in accordance with the Company’s short and long-term incentive plan, and personnel and contractor costs increasing approximately $371,000 as a result of executive compensation paid for the first time in the third quarter of 2021 and the increased use of third-party contactors related to increased Company operations. Additionally, professional fees increased approximately $284,000 related to the Company's growth, non-recurring projects and financing activities. The above increases are partially offset by decreases of approximately $140,000 in rent expense, depreciation expense and bad debt expense associated with the write-off a doubtful account in 2020.

Selling and marketing expenses for nine months ended September 30, 2021 were $209,301 compared with $230,822 for nine months ended September 30, 2020. The decrease of $21,521 for the nine months ended September 30, 2021, as compared to the same period in 2020 was primarily attributable to a $63,000 expense in 2020 related to non-cash marketing services paid through the issuance of common shares, partially offset by an increase in marketing and promotional activity and commissions in 2021.

Other Expense

Other expense for nine months ended September 30, 2021 was $786,741 compared with $2,977,508 for nine months ended September 30, 2020. The decrease in other expense of $2,190,767 for the nine months ended September 30, 2021 as compared to same period in 2020 was primarily attributable to the decrease in unrealized losses of approximately $2,138,000 related to fair value changes in the Company's investment in Greenlane. To a lesser degree the decrease was attributable to a loss of approximately $149,000 related to losses recognized in 2020 on the sale of servicing equipment. The above decreases were partially offset by an increase of approximately $154,000 in financing and accretion expenses associated with new debt in 2021, and a realized loss of approximately $99,000 related to the sale of Greenlane stock.

Net Loss

The Company's loss for nine months ended September 30, 2021 was $(1,512,281) compared to a loss of $(4,386,236) for nine months ended September 30, 2020. The Company anticipates further improvement in net income (loss) throughout 2021 due to the increase in new leasing activity.

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 placement equity raise via equity, convertible debentures, convertible notes, and debt, including term loans and a line of credit. 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*").

As of September 30, 2021, the Company had $4,251,409 of cash, working capital (deficit) (current assets minus current liabilities) of $(6,652,164) and an accumulated deficit of $(20,152,224) compared with $545,990 of cash, working capital (deficit) of $(2,079,684) and an accumulated deficit of $(18,639,943) as of December 31, 2020. The increase in cash of $3,705,419 is directly attributable to the March 2021 private placement equity issuance in which the Company raised approximately $9,900,000 of cash, net of issuance cost, and debt borrowings net of repayments and financing costs of approximately $10,402,000, offset by purchases of equipment related to new financing leases as well as the ongoing funding of operations. The decrease in working capital of $(4,572,480) is primarily attributable to the increase in debt borrowings classified as short-term of approximately $6,642,000 and the increase in account payable and accrued expenses of approximately $8,128,000 associated with financing lease equipment purchases. The above working capital changes are partially offset by an increase in cash of approximately $3,705,000 in cash, and an increase in lease receivables classified as short-term of approximately $6,270,000. The increase in accumulated deficit of $(1,512,281) was attributable to the funding of operations.

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 nine months ended September 30, 2021 and 2020:

	Nine months ended September 30,	
	2021	**2020**
Cash flows (used in) operating activities	$ (16,586,508)	$ (2,081,223)
Cash flows provided by investing activities	$ 86,845	$ 270,336
Cash flows provided by financing activities	$ 20,277,588	$ 55,762

Cash Flow from Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2021 was $(16,586,508) due to a change in working capital items of $(16,309,707) primarily related to new financing leases and a loss for the period of $(1,512,281). The above decreases were offset in part by non-cash adjustments of $1,235,480 including mark-to-market fair value change of investments, accretion of debt issuance costs and discounts, common shares issued for services, depreciation and non-cash incentive compensation.

Net cash used in operating activities for the nine months ended September 30, 2020 was $(2,081,223) primarily due to a loss for the period of $(4,386,236) and a change in working capital items of $(976,127) partially offset by non-cash adjustments of $3,281,140 including mark-to-market fair value change of investments, accretion of debt issuance costs and discounts, depreciation and non-cash incentive compensation.

Cash Flow from Investing Activities

Net cash was provided by investing activities for the nine months ended September 30, 2021 of $86,845 was attributable to the sale of stock in the Company's Greenlane investment.

Net cash provided by investing activities for the nine months ended September 30, 2020 of $270,336 was attributable to $522,205 of proceeds received from the sale of servicing equipment, offset in part by $(251,869) for the purchase of servicing equipment.

Cash Flow from Financing Activities

Net cash provided by investing activities for the three months ended September 30, 2021 was $20,277,588 and was attributable to $9,914,574 of net proceeds received from the Company's private placement equity issuance in March 2021, and debt borrowings of $12,940,000 net of repayments and financing costs of $2,537,544.

Net cash provided by investing activities for the nine months ended September 30, 2020 of $55,762 was attributable to proceeds received from a third party lender under the U.S. government's Paycheck Protection Program ("PPP") via the Coronavirus Aid, Relief, and Economic Security ("CARES") Act loan borrowings.

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 September 30, 2021, 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:

	Three months ended September 30,		Nine months ended September 30,	
	2021	**2020**	**2021**	**2020**
Salaries, contractor costs, management fees and benefits	$ 170,525	$ 51,171	$ 480,814	$ 270,897
Incentive compensation (non-cash)	227,788	8,601	290,500	56,897
	$ 398,313	$ 59,772	$ 771,314	$ 327,794

Related Party Transactions and Amounts Due to Related Parties

The following table presents expenses incurred on behalf of the Company by Archytas:

Amounts due to related parties at January 1, 2020	$	-
Interest expense		66,000
Management fee		146,200
Less payments to related parties		(174,133)
Amounts due to related parties at September 30, 2020	$	38,067
Amounts due to related parties at January 1, 2021	$	256,486
Management fee		171,001
Operating expenses		1,849
Less payment through issuance of common shares		(426,001)
Less payments to related parties		(1,486)
Amounts due to related parties at September 30, 2021	$	1,849

In March 2021, the Company received gross proceeds of $1,249,940 from Archytas related to the issuance of 5,251 proportionate voting shares to Archytas.

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 as described in the *Company Background* section above. In March and June 2021, the Company authorized the issuance of 1,890,824 common shares to Archytas as payment for a 2020 management fee bonus and the 2021 first and second quarter management fees (Note 17). The Company recorded $255,000 as a reduction to accrued expenses for previously accrued bonuses, and $171,001 as management fee expense for the nine months ended September 30, 2021. The Company recorded $nil and $146,200 of management fee expense for the three and nine months ended September 30, 2020.

In July 2021, the Company and Archytas mutually agreed to terminate the management services agreement and the Company entered into employment agreements with the Company's CEO, COO and VP of Corporate Development all of whom previously provided services to the Company under the management services agreement. The Company is party to certain management contracts. These contracts may require payments upon the occurrence of termination on 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

In August 2021, the Company entered into syndication notes with certain officers and directors of the Company totaling $350,000 with a balance of $342,131 as of September 30, 2021.

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New standards adopted

The Company had no additional new standards adopted that resulted in changes to the Company's accounting policies for the nine months ended September 30, 2021.

New standards and interpretations to be adopted in future periods

There are no new IFRS standards or interpretations expected to go into effect subsequent to the report date that would have a material impact on the Company's financial statements whether or not the policy is adopted early.

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.

Revenue Recognition

The Company recorded all financing leases entered into for the period on a net basis resulting in only the recognition of financing income revenue in the income statement. Historically the Company at times, met the definition of a manufacturer or dealer for equipment sales revenue transactions whereby the Company recorded revenue on a gross basis which included factoring in the notional value of the equipment, resulting is a higher amount of revenue recognized when compared to a net basis revenue recognition, along with the corresponding cost of sales related to the revenue.

Depreciation of Servicing Equipment, Property and Equipment, 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 19 of the Company's interim 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.

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, which is the United States Dollar (USD).

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 in which the discount rate ranges from 20% - 30%.

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

<u>Allowance for credit losses</u>

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.

As of September 30, 2021, 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.

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 financing receivables as of September 30, 2021.

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 September 30, 2021, the Company had current assets of $12,339,003 and current liabilities of $18,991,167. All current liabilities are due within one year.

At September 30, 2021, the Company also has the following obligations due:

	Less than 6 months	6 months to 1 years	1 to 3 years	Over 3 years
Trade and other payables	$ 7,380,944	$ -	$ -	$ -
Accrued expenses	4,160,443	-	-	-
Amounts due to related parties	1,849	-	-	-
Loans and borrowings (1)	6,928,354	750,077	7,423,602	620,858
	$ 18,471,590	$ 750,077	$ 7,423,602	$ 620,858
Commitments	-	-	-	-
Balance at September 30, 2021	$ -	$ -	$ -	$ -

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:

	September 30, 2021		**December 31, 2020**	
Tax receivable	$	23,712	$	8,836
Trade payable	$	26,240	$	69,128
Loans and borrowings [(1)]	$	5,633,000	$	5,668,000

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 $21,100 in the condensed consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2021.

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.

COVID-19

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.

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 75,526,443 common shares, 28,358 proportionate voting shares, 66,638,459 warrants and 18,334,423 stock options issued and outstanding. The weighted average strike for the warrants is $0.41 and the weighted average strike price of the options is $0.20.

SUBSEQUENT EVENTS

Convertible debentures

On October 29, 2021, the Company completed a private placement of unsecured convertible notes in the aggregate principal amount of $43.5 million, of which $33.5 million was funded at closing with an additional $10.0 million available on a delayed draw on the same terms until June 30, 2022. The notes mature two years following the closing date of the offering subject to a one-year extension at the option of the Company upon providing at least 30 days prior notice and issuing additional notes to the holders on a pro-rata basis in an aggregate principal amount equal to 1% of the aggregate principal amount of the notes outstanding as of the date of the extension notice.

The principal amount outstanding under the notes may be converted by the holders at any time prior to the third business day prior to maturity into Shares at a conversion price equal to the lesser of: (i) CAD$0.35 per Share; or (ii)(a) the last offering price per security (the "Qualified Offering Price") in one or more prospectus offerings of Shares completed by the Company within 12 months of the closing of the Offering to raise aggregate gross proceeds of at least US$5,000,000 (a "Qualified Offering") if the date of conversion is prior to the commencement of marketing of such Qualified Offering; or (b) 125% of the Qualified Offering Price if the date of conversion is after the commencement of marketing of such Qualified Offering, all in accordance with the terms and conditions of the notes.

Interest on the notes will accrue at the rate of (i) 9.50% per annum, of which 7.50% shall be payable in cash and the remaining 2.00% shall be payable in kind by the issuance of additional Notes ("PIK Interest") and (ii) in the event of the Shares commence trading on a market tier of the Nasdaq Stock Market LLC (a "NASDAQ Listing"), 8.00% per annum, of which 6.00% shall be payable in cash, and the remaining 2.00% shall be payable as PIK Interest.

In the event of a change of control of the Company, XSF shall be required to redeem the notes at a repurchase price equal to the greater of (i) 101% of the principal amount thereof, plus accrued and unpaid interest; and (ii) the product of (x) the number of Shares issuable upon conversion of the Notes to be redeemed and (y) the "transaction price" of such change of control, payable in the same form and amount as would be payable on the underlying Shares, all in accordance with the terms and conditions of the notes.

The Company also issued an aggregate of 16,750,000 share purchase warrants being one warrant for each US$2.00 principal amount of notes. Each Warrant entitles the holder to acquire one subordinate voting share of the Company at an exercise price of CAD$0.45 until October 29, 2024.

Syndication term loans

In October 2021, the Company entered into additional promissory note agreements with lenders totaling $350,000, of which $250,000 was with related parties and $100,000 was with arms-length parties. The $350,000 of borrowings has increased the Company's total syndication term loan borrowings to $5,765,000. The additional promissory notes have maturity dates ranging from June 2024 to June 2025, and bear interest rates of 12% per annum, payable monthly. The promissory notes are secured by the lease payment streams and the underlying equipment of certain finance leases the Company has entered into with customers.

Lease Originations

In October and November 2021, the Company completed 9 lease schedules with Ayr Wellness, Columbia Care, PharmaCann and Maggie's Farm, resulting in lease originations totaling $4.9 million and equipment value totaling $5.6 million**.**