XS Financial Inc.

Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020

(Unaudited)

(Expressed in United States Dollars)

XS Financial Inc.

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements, in accordance with standards established by CPA Canada for a review of interim financial statements by an entity's auditor.

XS Financial Inc.
Unaudited condensed consolidated statements of loss and comprehensive loss
For the three and nine months ended September 30, 2021 and 2020
(Expressed in United States dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2021**	**2020**	**2021**	**2020**
Revenue	6	$ 998,412	$ 165,829	$ 1,976,163	$ 365,762
Operating expenses					
Administrative expenses	7	1,089,382	357,871	2,492,402	1,543,668
Sales and marketing expenses	7	71,104	63,399	209,301	230,822
Loss from operations		(162,074)	(255,441)	(725,540)	(1,408,728)
Financing expense, net	15	217,400	128,348	523,845	394,929
Accretion expense	15	100,373	89,656	266,933	241,462
Realized loss on sale of investments	8	98,857	-	98,857	-
Unrealized loss (gain) in fair value change of investments	8	50,072	320,698	(80,358)	2,218,744
Loss on sale of servicing and property equipment and inventory	12	-	84,247	-	149,371
Other expense (income)		(230)	(559)	(22,536)	(26,998)
Net loss		$ (628,546)	$ (877,831)	$ (1,512,281)	$ (4,386,236)
Other comprehensive loss					
Items that will subsequently be reclassified to operations:					
Unrealized loss on foreign currency translation		(7,728)	2,679	(72,506)	(15,156)
Comprehensive loss		$ (636,274)	$ (875,152)	$ (1,584,787)	$ (4,401,392)
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

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.
Unaudited condensed consolidated statements of financial position
As of September 30, 2021 and December 31, 2020
(Expressed in United States dollars)

	Note	September 30, 2021	(Audited) December 31, 2020
Assets			
Current assets			
Cash		$ 4,251,409	$ 545,990
Investments	8	210,849	316,194
Trade receivables, net	9	112,333	-
Financing receivables, short-term	10	7,724,556	1,454,927
Prepaid and other current assets	11	39,856	79,233
Total current assets		12,339,003	2,396,344
Non-current assets			
Servicing and property equipment	12	31,356	44,884
Financing receivables, long-term	10	23,013,865	4,852,768
Total non-current assets		23,045,221	4,897,652
Total assets		$ 35,384,224	$ 7,293,996
Shareholders' equity and liabilities			
Current liabilities			
Loans and borrowings, short-term	15	$ 7,447,931	$ 805,762
Trade and other payables	13	7,380,944	2,264,139
Accrued expenses	14	4,160,443	1,149,641
Amounts due to related parties	20	1,849	256,486
Total current liabilities		18,991,167	4,476,028
Non-current liabilities			
Loans and borrowings, long-term	15	6,296,755	2,283,890
Total liabilities		25,287,922	6,759,918
Shareholders' equity			
Share capital	17	21,158,842	14,688,043
Reserves		8,274,282	3,589,233
Conversion feature - debentures		930,697	939,534
Accumulated other comprehensive loss		(115,295)	(42,789)
Accumulated deficit		(20,152,224)	(18,639,943)
Total shareholders' equity		10,096,302	534,078
Total shareholders' equity and liabilities		$ 35,384,224	$ 7,293,996

Nature of operations and background information (Note 1)
Going concern (Note 3)
Contingencies (Notes 15 and 20)
Subsequent events (Note 22)

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

XS Financial Inc.
Unaudited condensed consolidated statements of changes in equity
For the nine months ended September 30, 2021 and 2020
(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, 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 shares and warrants	16,17	48,181	-	24,510	13,223	(19,401)	-	-	18,332
Redeemable common stock held in escrow		-	-	650,000	-	-	-	-	650,000
Issuance of proportionate voting shares	17	-	10,600	3,273,100	-	-	-	-	3,273,100
Issuance of common shares to third party providers	17	1,069,047	-	190,047	-	-	-	-	190,047
Issuance of common shares for the purchase of a lenders license	17	450,671	-	96,238	-	-	-	-	96,238
Share-based incentive compensation	19	-	-	-	314,331	-	-	-	314,331
Net loss and comprehensive loss		-	-	-	-	-	(15,156)	(4,386,236)	(4,401,392)
Balance at September 30, 2020		31,554,663	23,107	$ 14,576,573	$ 3,562,240	$ 939,534	$ (39,841)	$ (17,972,857)	$ 1,065,649
Balance at January 1, 2021		32,337,724	23,107	$ 14,688,043	$ 3,589,233	$ 939,534	$ (42,789)	$ (18,639,943)	$ 534,078
Conversion of Sub Receipt debentures to common shares and warrants	16,17	31,818	-	13,533	9,660	(8,837)	-	-	14,356
Issuance of common shares to consultants and related parties	17	2,447,170	-	575,006	-	-	-	-	575,006
Common shares, proportionate voting shares and warrants issued in connection with private placement, net of issuance costs of $1,504,308	16,17	40,709,731	5,251	5,882,260	3,992,871	-	-	-	9,875,131
Share-based incentive compensation	19	-	-	-	682,518	-	-	-	682,518
Net loss and comprehensive loss		-	-	-	-	-	(72,506)	(1,512,281)	(1,584,787)
Balance at September 30, 2021		75,526,443	28,358	$ 21,158,842	$ 8,274,282	$ 930,697	$ (115,295)	$ (20,152,224)	$ 10,096,302

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

XS Financial Inc.
Unaudited condensed consolidated statements of cash flows
For the nine months ended September 30, 2021 and 2020
(Expressed in United States dollars)

		Nine months ended September 30,	
	Note	**2021**	**2020**
Cash flows from operating activities			
Loss for the period		$ (1,512,281)	$ (4,386,236)
Adjustments to reconcile loss to net cash flows:			
Depreciation expense	12	13,528	89,994
Unrealized (gain) loss on investment	8	(80,357)	2,218,744
Loss on investment	8	98,857	-
Acquisition of CFLL	17	-	96,238
Loss on sale of inventory and servicing and property equipment	12	-	149,371
Incentive compensation expense	19	682,518	314,331
Common shares issued for services	17	254,001	171,000
Finance and accretion expense	15	266,933	241,462
		(276,801)	(1,105,096)
Change in working capital items:			
Trade and other receivables	9	(112,333)	49,769
Financing receivables	10	(24,430,726)	(330,932)
Prepaid and other current assets	11	39,377	98,834
Trade and other payables	13	5,116,805	(55,656)
Accrued expenses	14	3,076,807	(776,209)
Amounts due to related parties	20	363	38,067
Net cash flows used in operating activities		(16,586,508)	(2,081,223)
Cash flows from investing activities			
Proceeds from the sale of servicing equipment and property and equipment	12	-	522,205
Proceeds from the sale of investments	8	86,845	-
Purchases of servicing and property equipment	12	-	(251,869)
Net cash flows provided by investing activities		86,845	270,336
Cash flows from financing activities			
Proceeds from issuance of private placement, net of issuance costs	17	9,875,132	-
Proceeds from loans and borrowings	15	12,940,000	55,762
Repayment of loans and borrowings	15	(2,300,982)	-
Payment of debt financing costs	15	(236,562)	-
Net cash flows provided by financing activities		20,277,588	55,762
Effect of exchange rate changes on cash		(72,506)	(15,156)
Net increase (decrease) in cash		3,705,419	(1,770,281)
Cash at beginning of the the period		545,990	2,487,293
Cash at end of the period		$ 4,251,409	$ 717,012
Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 516,217	$ 361,920
Non-cash investing and financing activities			
Issuance of proportionate common shares for investment	17	$ -	$ 3,273,100
Issuance of common shares to consultants, board members and related parties	17	575,006	190,047
Conversion of Sub Receipt convertible debt to common stock and warrants	17	14,355	18,332
Private placement issuance costs - warrants issued	16,17	442,508	-
Issuance of units in connection with the payment of a finance fee related to the private placement	17	341,659	-

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

(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, VIY 2B3 and its operations address is 1901 Avenue of The Stars, Suite 120, Los Angeles, California 90067, USA.

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 ("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 (Note 15).

The accompanying consolidated financial statements have been approved by the Company’s board of directors and are authorized for issuance as of November 29, 2021.

(2) Basis of presentation

Statement of compliance

These condensed 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).

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 condensed 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, XSF SPC, LLC incorporated in Delaware, United States and CSI Princesa Inc. incorporated in Ontario, Canada. The results of subsidiaries acquired or disposed of during the year are included in the condensed 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 condensed consolidated financial statements of the Company are presented in U.S. dollars (USD). The functional currency of the Company and CSI Princesa Inc., its Canadian subsidiary, is the Canadian dollar. The functional currency of Xtraction Services, Inc., CA Licensed Lenders LLC and XSF SPC, LLC is the U.S. dollar.

Basis of measurement

The condensed 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 condensed 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 condensed consolidated financial statements and their effect are disclosed in Note 5 below.

Reclassifications

Certain amounts in the prior periods condensed consolidated financial statements have been reclassified to conform to the current period presentation resulting in changes to previously reported results in the three and nine months ended September 30, 2020.

(3) Coronavirus and going concern

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 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 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.

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.

(Expressed in United States Dollars)

(4) Significant accounting policies

The Company has applied the same accounting policies and methods of computation in its interim condensed consolidated financial statements as in its 2020 and 2019 annual financial statements. 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.

Fair value of financial instruments

As at September 30, 2021 and December 31, 2020, the Company had the following financial instruments measured at fair value:

	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 September 30, 2021:				
Assets:				
Investments (Note 8)	$ 210,849	$ -	$ -	$ 210,849
As of December 31, 2020:				
Assets:				
Investments (Note 8)	$ 316,194	$ -	$ -	$ 316,194

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 of September 30, 2021 and December 31, 2020.

(5) Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in Note 4 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.

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. 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.

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 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

See Note 10.

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.

Contingencies

See Note 15 and 20.

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.

(Expressed in United States Dollars)

(6) Revenue

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

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Revenue source:				
Financing and other income on financing leases (Note 10)	$ 998,412	$ 165,829	$ 1,976,163	$ 222,512
Operating leases	-	-	-	143,250
	$ 998,412	$ 165,829	$ 1,976,163	$ 365,762
Timing of revenue recognition under IFRS 15 from contracts with customers:				
Services transferred over time	$ -	$ -	$ -	$ 143,250

Revenue concentration

All of the Company's revenue is derived from customers in the United States with three customers representing 36%, 28%, and 20% for the three months ended September 30, 2021 and 34%, 27% and 22% of the Company's recognized revenue for the nine months ended September 30, 2021. The Company had three customers that represented 50%, 23% and 10% of the Company's recognized revenue for the three months ended September 30, 2020 and four customers that represented 29%, 25%, 21% and 15% of the Company's recognized revenue for the nine months ended September 30, 2020.

(7) Expenses by nature

The following tables presents an analysis of expense by nature:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Administrative expenses:				
Compensation and benefits	$ 187,832	$ 36,801	$ 229,148	$ 128,638
Incentive compensation	409,844	28,829	682,518	314,331
Contractors and outside services	109,517	51,171	383,661	113,158
Management fee	-	-	171,001	146,200
Professional fees	274,260	160,272	725,208	440,817
Office rent, utilities and expenses	-	(1,857)	-	23,834
Travel, meals and entertainment	6,462	1,160	17,436	10,137
Insurance	56,824	45,131	170,430	152,451
Depreciation expense	4,402	18,987	13,528	89,994
Other expenses	40,241	17,377	99,472	124,108
	$ 1,089,382	$ 357,871	2,492,402	$ 1,543,668
Sales and marketing expenses:				
Compensation and benefits	$ 40,619	$ 647	$ 100,995	$ 50,392
Contractors and outside services	18,500	(20,650)	54,700	10,000
Commissions	-	13,535	-	18,295
Professional fees	-	63,859	-	71,076
Advertising and marketing	11,392	5,591	48,448	79,093
Other expenses	593	417	5,158	1,966
	$ 71,104	$ 63,399	$ 209,301	$ 230,822

(8) 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 17) 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. In August 2021, KushCo mergered with Greenlane Holdings, Inc. (“Greenlane”), a NASDAQ publicly listed company. The Company received 0.3016 shares of Greenlane common stock for each share of KushCo common stock owned, and Greenlane became the holders of the Company’s 10,600.3 proportionate voting shares.

The Company recorded the shares received from KushCo as investments on the consolidated statement of financial position. Investments are classified at FVTPL. In July 2021, the Company sold an aggregate of 294,981 shares of the KushCo stock for net proceeds of $86,845. The Company recorded a realized loss of $98,857 at FVPL in the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2021. At September 30, 2021, the remaining investment in Greenlane (formerly KushCo) was re-valued at $210,849. The Company recorded an unrealized change in fair value, resulting in a loss of $50,072 and 320,698 in the condensed consolidated statements of loss and comprehensive loss for the three months ended September 30, 2021 and 2020, respectively, and a gain of $(80,358) and loss of $2,218,744 in the condensed consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2021 and 2020, respectively.

(9) Trade receivables

The carrying value of trade receivables as of September 30, 2021 and December 31, 2020 was $112,333 and $nil, 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 condensed consolidated statements of loss and comprehensive loss.

(Expressed in United States Dollars)

(10) Financing receivables

The following table presents financing receivables:

	September 30, 2021	December 31, 2020
Financing receivables, short-term	$ 7,724,556	$ 1,454,927
Financing receivables, long-term	23,013,865	4,852,768
	$ 30,738,421	$ 6,307,695

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.

The following table presents a maturity analysis of lease receivables, including the undiscounted lease payments to be received as at September 30, 2021:

2021 (remaining)	$ 2,925,657
2022	11,496,711
2023	11,242,045
2024	9,442,287
2025	3,298,306
Therafter	427,722
Total undiscounted lease payments receivable	38,832,728
Unearned finance income	(8,094,307)
Net investment in lease	$ 30,738,421

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.

(Expressed in United States Dollars)

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.

(11) Prepaid and other current assets

The following table presents prepaid and other current assets:

	September 30, 2021	December 31, 2020
Prepaid insurance	$ 13,305	$ 52,292
Canada tax receivable	18,699	6,941
Other	7,852	20,000
	$ 39,856	$ 79,233

(Expressed in United States Dollars)

(12) Servicing, property and equipment

The following table below presents the change in carrying value of the Company's property and equipment from January 1, 2021 through September 30, 2021:

	Computers	Machinery and equipment	Servicing equipment	Total
Cost:				
Balance at January 1, 2021	$ 13,621	$ 3,490	$ 64,825	$ 81,936
Balance at September 30, 2021	$ 13,621	$ 3,490	$ 64,825	$ 81,936
Accumulated Depreciation:				
Balance at January 1, 2021	$ (7,237)	$ (1,687)	$ (28,128)	$ (37,052)
Depreciation	(3,244)	(524)	(9,760)	(13,528)
Balance at September 30, 2021	$ (10,481)	$ (2,211)	$ (37,888)	$ (50,580)
Net book value:				
Balance at December 31, 2020	$ 6,384	$ 1,803	$ 36,697	$ 44,884
Balance at September 30, 2021	$ 3,140	$ 1,279	$ 26,937	$ 31,356

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

Equipment sales

During 2020, the Company sold servicing equipment back to the original supplier of the equipment, Khrysos Global Inc. ("Khrysos"), and other third-party buyers for gross proceeds of $522,205 with recognized losses of $84,247 and $149,371 recorded as a loss on sale of inventory and servicing and property equipment within the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2020, respectively.

Depreciation expense related to servicing, property and equipment is included in administrative expenses within the condensed consolidated statements of loss and comprehensive loss.

(13) Trade and other payables

The following table presents trade and other payables:

	September 30, 2021	December 31, 2020
Trade payables	$ 7,379,961	$ 2,238,228
Credit card payable	983	25,911
	$ 7,380,944	$ 2,264,139

Trade payables of $7,379,961 as at September 30, 2021, and $2,238,228 at December 31, 2020, primarily comprise of payables related to servicing equipment purchases satisfying financing agreements with the Company's customers.

(Expressed in United States Dollars)

(14) Accrued expenses

The following table presents accrued expenses:

	September 30, 2021	December 31, 2020
Accrued servicing equipment purchases	$ 3,845,488	$ 990,554
Accrued credit facility fees	49,266	-
Accrued interest	4,025	-
Accrued professional fees	33,662	2,504
Accrued compensation, commissions, benefits and related taxes	27,664	85,093
Accrued sales tax	20,324	33,246
Accrued other	-	35,744
Unearned revenue	180,014	2,500
	$ 4,160,443	$ 1,149,641

(15) Loans and borrowings

The following table presents loans and borrowings outstanding:

Description	Maturity date	Interest rate	September 30, 2021	December 31, 2020
Line of credits:				
Burling Bank line of credit	November, 2022	8.0%	$ 3,275,000	$ 750,000
Garrington credit facility	September, 2023	11.75%	3,000,000	-
Term loans:				
Customers Bank	April, 2022	1.0%	55,762	55,762
Syndication notes	April, 2024 - July, 2025	12.0%	5,114,018	-
Convertible debentures	March, 2024	10.0%	218,869	218,869
Sub Receipt convertible debentures	September, 2024	10.0%	4,059,242	4,085,852
			15,722,891	5,110,483
Less:				
Unamortized discounts, debt issuance costs, financing costs and prepaid offering costs [1]			(1,978,205)	(2,020,831)
			$ 13,744,686	$ 3,089,652
Non-current			$ 6,296,755	$ 2,283,890
Current			$ 7,447,931	$ 805,762

Note to the table:

(1) 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.

(Expressed in United States Dollars)

The following table below shows the change in carrying value of the Company's loans and borrowings from January 1, 2021 through September 30, 2021:

	Line of credits	Term loans	Convertible debentures	Debt discounts, prepaid costs and deferred financing costs	Total
Balance at January 1, 2021	$ 750,000	$ 55,762	$ 4,304,721	$ (2,020,831) (1)	$ 3,089,652
Borrowings	7,525,000	5,415,000	-	-	12,940,000
Repayments	(2,000,000)	(300,982)	-	-	(2,300,982)
Conversion of Sub Receipt convertible debenture	-	-	(26,610)	12,255	(14,355)
Debt issuance costs	-	-	-	(236,562) (2)	(236,562)
Amortization and accretion of debt discounts and debt issuance costs	-	-	-	266,933	266,933
Balance at September 30, 2021	$ 6,275,000	$ 5,169,780	$ 4,278,111	$ (1,978,205)	$ 13,744,686

Note to the table:

(1) Represents debt discounts on loan borrowing proceeds and convertible debt issuances, and debt issuance costs netted against the gross proceeds of the Sub Receipt debenture issuance.

(2) Represents deferred financing costs related to the Company's line of credit borrowings.

Line of credits

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. In July 2021, the Company increased the maximum borrowing base to $4,000,000. 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 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 September 30, 2021. The line of credit is secured by substantially all of the assets of the Company. The Company incurred financing costs of $22,321 related to the increase in the line of credit borrowing base. The financing costs were recorded net of the line of credit carrying value and are being amortized to interest expense over the life of the line of credit under the effective interest rate method. The Company incurred interest expense related to the line of credit of $16,094 and $60,853, within the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2021, respectively.

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."

The Company is subject to certain fees under the credit facility including an origination fee equal to the greater of $25,000 or 1% of the Company's first borrowing and 1% of each loan borrowing thereafter with a minimum fee of $75,000 in the first year of the credit facility. Additionally, the Company is subject to an anniversary fee due equal to the greater of $37,500 or 0.50% of the outstanding credit facility balance on each anniversary of the credit facility agreement. As of September 30, 2021, the Company has incurred fees and other financing costs of $214,241 related to credit facility. The fees and financing costs were recorded net of the credit facility carrying value and are being amortized to interest expense over the life of the credit facility under the effective interest rate method. The Company incurred interest expense related to the credit facility of $4,025, within the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2021.

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.

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. The Company incurred interest expense related to the syndication notes of $84,273 and $116,261, within the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2021, respectively.

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 effective interest rate method within the condensed 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 condensed 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.

(Expressed in United States Dollars)

In January and March 2020, investors exercised their conversion feature on $25,000CAD ($19,008) and $28,000CAD ($21,288) of the Sub Receipt debentures and received 22,727 and 25,454 common shares and warrants, respectively.

In July 2021, an investor exercised their conversion feature on $35,000CAD ($26,611) of the Sub Receipt debentures and received 31,818 common shares and warrants, respectively.

The Company incurred interest expense related to the convertible debentures of $111,806 and $109,056 for the three months ended September 30, 2021 and 2020, respectively, and $339,103 and $324,949 for the nine months ended September 30, 2021 and 2020, respectively, within the condensed consolidated statements of loss and comprehensive loss.

Summary of financing expense, net

As detailed individually above, financing expense, net, for the nine months ended September 30, 2021, $523,845 consisted of: $60,853 and $4,025 related to line of credits, $116,261 related to term loans, $339,103 related to convertible debentures and separately $3,603 which relates to the Company's financing of insurance.

Financing expense, net, for the three months ended September 30, 2021, $217,400 consisted of: $16,094 and $4,025 related to line of credits, $84,273 related to term loans, $111,806 related to convertible debentures and separately $1,202 which relates to the Company's financing of insurance.

(16) Warrants

The following table summarizes warrant activity from January 1, 2021 through September 30, 2021:

	Number of warrants	Weighted average exercise price per share
Outstanding at January 1, 2021	7,375,077	$ 0.16
Granted	43,100,200	$ 0.40
Expired	(586,818)	$ 0.82
Outstanding at September 30, 2021	49,888,459	$ 0.49

Warrant issuances

In March 2021, the Company issued 40,709,731 common share warrants, of which 1,450,000 of the warrants were satisfaction for a corporate financing fee, and 5,251 proportionate voting share warrants related to a private placement equity issuance (Note 17). The warrants have a term of two years and exercise prices of $0.45CAD ($0.36) per share for the common share warrants and $450CAD ($360) per share for the proportionate voting share warrants. The non-corporate financing fee warrants had a value of $5,377,706CAD ($4,267,007) on the date of issue using the Black-Scholes option pricing model and were recorded as a component of equity within the condensed consolidated statements of financial position. The corporate financing fee warrants had a value of $175,194CAD ($137,595) on the date of issue using the Black-Scholes option pricing model and were recorded as a component of equity as non-cash equity issuance costs within the condensed consolidated statements of financial position.

(Expressed in United States Dollars)

In connection with the private placement the Company issued an additional 2,353,400 common share warrants to brokers and agents for services rendered in the private placement equity issuance. The warrants entitle 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. 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. The warrants had a value of $561,809CAD ($442,508) on the date of issue using the Black-Scholes option pricing model and were recorded as a component of equity as non-cash equity issuance costs within the condensed consolidated statements of financial position.

In July 2021, the Company issued 31,818 of warrants related to the conversion of Sub Receipt debentures (Note 15). The warrants have a term of five years and exercise price of $1.50CAD ($1.20) per share. The warrants had a value of $9,660 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 issued in 2021 was determined using the Black-Scholes option pricing model with the following assumptions:

	Common share warrants	Proportionate voting share warrants	Broker warrants	Sub Receipt debenture warrants
Expected dividend yield	-	-	-	-
Expected volatility	156.3%	156.3%	156.3%	150.1%
Risk-free interest rate	0.1%	0.1%	0.1%	1.0%
Expected term	2 years	2 years	2 years	5 years
Conversion / share price	$ 0.36	$ 360.00	$ 0.24	1.20

(Expressed in United States Dollars)

The following table presents warrants outstanding at September 30, 2021:

Expiration date	Term (years)	Number of warrants outstanding	Number of warrants exercisable	Exercise price US $	Exercise price CAD $
Common share warrants:					
3-Mar-23	2	40,709,731	40,709,731	$ 0.36	$ 0.45
3-Mar-23	2	2,353,400	2,353,400	$ 0.36	$ 0.45
12-Apr-24	5	500,000	500,000	$ 0.82	$ 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
11-Sep-24	5	31,818	31,818	$ 1.20	$ 1.50
Proportionate voting share warrants:					
3-Mar-23	2	5,251	5,251	$ 355.55	$ 450.00
Total	1.6 years	49,888,459	49,888,459	$ 0.49	$ 0.63

(17) Share capital

As at September 30, 2021 and December 31, 2020, 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 September 30, 2021 and December 31, 2020, the Company had 75,526,443 and 32,337,724 issued and outstanding common shares and 28,358 and 23,107 issued and outstanding proportionate voting shares, respectively.

Share issuances

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 8). On completion of the share swap, KushCo became a 19.9% shareholder of the Company. In August 2021, KushCo mergered with Greenlane Holdings, Inc. ("Greenlane"), at which time Greenlane became the holders of the Company's 10,600.3 proportionate voting shares.

In January and March 2020, the Company issued 22,727 and 25,454 common shares, respectively, on the conversion of Sub Receipt debentures (Note 15). 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 September 30, 2020 and $63,000 as sales and marketing expense within the condensed consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2020.

In July 2020, the Company issued 450,761 common shares at a share price of $0.29CAD ($0.21) as consideration for the purchase of a California lenders license from CA Licensed Lenders LLC. The Company recorded $96,237 as professional fee transaction expense within the condensed consolidated statements of (loss) income and comprehensive (loss) income for the three and nine months ended September 30, 2020. Additionally, in July 2020, the Company issued 119,047 common shares at a share price of $0.21CAD ($0.16) to a third-party service provider for settlement of an obligation for services provided. The Company recorded $19,047 against accounts payable within the condensed consolidated statements of financial position.

In February and March 2021, the Company received gross proceeds of $13,353,219CAD ($10,595,270), including $1,575,300 CAD ($1,249,940) from a related party Archytas (Note 20), net of cash issuance costs of $914,667CAD ($720,141), 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 (Note 16). The Company recorded $7,975,513CAD ($6,328,263) of the unit value as share capital with the residual value of $5,377,706CAD ($4,267,007) allocated to warrants (Note 16) and recorded as a component of equity within the condensed consolidated statements of financial position.

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 (Note 16), 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. The corporate financing fee common shares had a value of $259,824CAD ($204,064) on the date of issue using the Black-Scholes option pricing model and were recorded as a component of equity as non-cash equity issuance costs within the condensed consolidated statements of financial position.

In March and June 2021, the Company issued 2,447,170 common shares at share prices ranging between $0.22CAD ($0.19) and $0.37CAD ($0.30), based on the value of the services provided, to consultants and a related party (Archytas) (Note 20), as consideration for services performed. The Company recorded $404,563CAD ($321,005) for 1,348,542 of the common shares issued as a reduction to accrued expenses for previously accrued bonuses, within the condensed consolidated statements of financial position, and $314,293CAD ($254,001) for the remaining 1,098,628 of common shares issued as general and administrative expense, within the condensed consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2021, respectively.

(Expressed in United States Dollars)

In July 2021, the Company issued 31,818 common shares, respectively, on the conversion of Sub Receipt debentures (Note 15). Total shareholders' equity increased $14,356 as a result of this conversion.

(18) Income taxes

The Company recognized a deferred income tax provision of $Nil for both the three and nine months ended September 30, 2021 and 2020.

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate was 26.5%, for the three and nine months ended September 30, 2021 and 2020.

(19) 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 Omnibus plan was revised in August 2021. The Incentive Plan provides for the granting of up 15% of outstanding shares and is not to exceed a maximum of 75,000,000 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 March, April, June and September 2021, the Company granted a total of 13,648,840 options to employees, directors and consultants of the Company with exercise prices ranging between $0.20CAD ($0.16) and $0.33CAD ($0.26). The options have terms of five years, with vesting terms either immediately or over three years. A total of 8,686,946 stock options were granted to directors and officers.

The per-share grant date weighted average fair value of stock options was estimated at $0.18 on the date of grant for the nine months ended September 30, 2021, using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield		-
Expected volatility		148.3% - 156.5%
Risk-free interest rate		0.1%
Expected term		3.5 years
Share price	$	0.16 - 0.27

The following table summarizes stock option activity under the Option Plan from January 1, 2021 through September 30, 2021:

(Expressed in United States Dollars)

	Number of shares	Weighted average exercise price per share		Weighted average remaining contractual term (years)
Outstanding at January 1, 2021	4,685,583	$	0.30	4.9
Granted	13,648,840	$	0.18	
Outstanding at September 30, 2021	18,334,423	$	0.21	4.7
Exercisable and vested at September 30, 2021	8,713,374	$	0.25	4.5

As of September 30, 2021, there was approximately $1,126,000 of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 2.0 years.

The Company recorded compensation expense for stock options of $409,844 and $28,829 for the three months ended September 30, 2021 and 2020, respectively, and $682,518 and $314,331 for nine months ended September 30, 2021 and 2020, respectively, within the condensed consolidated statements of loss and comprehensive loss.

The following table summarizes the stock options outstanding As at September 30, 2021:

Expiry Date	Exercise Price US $		Exercise Price CAD $		Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested
July 2028	$	0.60	$	0.78	6.80	1,055,129	1,055,128
November 2024	$	0.26	$	0.34	3.15	1,805,000	1,719,134
April 2025	$	0.16	$	0.22	3.55	1,808,889	1,808,889
December 2025	$	0.18	$	0.23	4.21	16,565	16,565
March 2026	$	0.26	$	0.33	4.49	1,880,180	786,430
April 2026	$	0.27	$	0.33	4.57	360,000	360,000
June 2026	$	0.25	$	0.30	4.70	148,660	148,660
September 2026	$	0.16	$	0.20	4.94	11,260,000	2,815,000
	$	0.21	$	0.27	4.68	18,334,423	8,709,806

(20) Related party transactions

The following presents balances and transactions between the Company and other related parties as of September 30, 2021 and December 31, 2020, and for the three and nine months ended September 30, 2021 and 2020, respectively.

Key management personnel

(Expressed in United States Dollars)

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

See also Notes 17 and 19.

Related party transactions and amounts due to related parties

The following table presents expenses incurred on behalf of the Company from the related party, Archytas, for the nine months ended September 30, 2021 and 2020:

	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 (Note 17).

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 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, within the condensed consolidated statements of financial position, and $171,001 as management fee expense, within the condensed consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2021. The Company recorded $nil and $146,200 of management fee expense, within the condensed consolidated statements of loss and comprehensive loss 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 term loans (Note 15) with certain officers and directors of the Company totaling $350,000 with a balance of $342,131 as of September 30, 2021.

(21) 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 financing receivables as of September 30, 2021. See also Note 10.

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 classified as 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
Balance at September 30, 2021	$ 18,471,590	$ 750,077	$ 7,423,602	$ 620,858

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 (Note 15).

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.

(22) Subsequent events

Convertible notes

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**.**