MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF FOR THE YEARS ENDED DECEMBER 31, 2022, AND 2021

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of the operations of XS Financial Inc. ("**XSF**", the "**Company**", "**our**" or "**we**") constitutes management's review of the factors that affected the Company's financial and operating performance for the years ended December 31, 2022 and 2021. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's audited financial statements for the years ended December 31, 2022 and 2021 together with the notes thereto. The annual financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All amounts in the annual financial statements and this discussion are expressed in United States dollars, unless otherwise stated. The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at April 25, 2023, 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.

FORWARD-LOOKING STATEMENTS

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 and United States 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".

The following table outlines certain significant forward-looking statements contained in this interim MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

Forward looking statements	Assumptions	Risk Factors
Target leasing opportunities for the Company will primarily consist of leases to businesses underpinned by recurring, predictable revenues, sound balance sheets and experienced management teams	The operating activities of the Company on a going forward basis will be consistent with the Company's current expectations	Unforeseen costs to the Company will arise; ongoing uncertainties relating to the COVID-19 virus; any particular operating cost increase or decrease from the date of the estimation; and capital markets not being favorable for funding resulting in the Company not being able to obtain financing when required or on acceptable terms
XSF remains well-positioned to execute its business plan	The operating activities of the Company on a going forward basis will be consistent with the Company's current expectations; the Company has anticipated all material costs and risks, and such costs and activities will be consistent with the Company's current expectations; the Company will be able to obtain equity funding or refinance debt when required	Unforeseen costs to the Company will arise; ongoing uncertainties relating to the COVID-19 virus; any particular operating cost increase or decrease from the date of the estimation; and capital markets not being favorable for funding resulting in the Company not being able to obtain financing when required or on acceptable terms
The Company intends to use its $24,000,000 senior secured revolving credit facility loan proceeds closed in August 2022, together with cash on hand, to fund additional equipment leases with new and existing customers	The operating activities of the Company on a going forward basis will be consistent with the Company's current expectations; the Company has anticipated all material costs and risks, and such costs and activities will be consistent with the Company's current expectations; the Company will be able to obtain equity funding or refinance debt when required	Unforeseen costs to the Company will arise; ongoing uncertainties relating to the COVID-19 virus; any particular operating cost increase or decrease from the date of the estimation; and capital markets not being favorable for funding resulting in the Company not being able to obtain financing when required or on acceptable terms

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. Please also make reference to those risk factors referenced in the "Risk Factors" section below. Readers are cautioned that the above chart does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this interim MD&A.

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.

OVERVIEW OF THE COMPANY

Company Background

XSF was incorporated under the laws of the Province of British Columbia on December 3, 2009, and its subordinate voting shares are 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, the Company and XSI entered into a definitive agreement pursuant to which the Company, through a wholly owned subsidiary, agreed to acquire all of the issued and outstanding class A and class B common stock, stock options and warrants of XSI (the "**Transaction**"). The Transaction was completed on September 11, 2019.

On July 7, 2021, the Company established XSF SPC, LLC ("**XSF SPC**"), a Delaware limited liability, as a wholly owned subsidiary to be 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. In August 2022 the credit facility was terminated.

Description of Business

XSF provides the U.S. cannabis industry access to competitively priced, non-dilutive CAPEX financing solutions. Founded in 2017, the business of 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 200 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 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 records revenue that is derived from financing income earned on the financing component of lease transactions. Financing income is the interest earned by the Company on our lease arrangements.

See also "*Risk Factors*".

Revolving credit facility

In August 2022, the Company entered into a senior secured revolving credit facility ("**revolving credit facility**") with two FDIC insured banks and a maximum borrowing base of $24,000,000. The revolving credit facility has a term of two years, expiring in August 2024, and bears interest at an annual rate equal to the greater of (i) 6.0% per annum or (ii) Wall Street Journal Prime plus 1.0% and may be prepaid with no penalty at any time. The revolving credit facility is subject to a quarterly minimum interest expense ratio financial covenant. The Company was in compliance with its financial covenants as of December 31, 2022. The revolving credit facility is secured by substantially all of the assets of the Company.

In conjunction with entering the revolving credit facility, the Company terminated its previously held $15,000,000 secured term loan credit facility and $4,000,000 line of credit facility. All outstanding borrowings for these facilities were repaid.

Convertible notes

In October 2022, the Company exercised the drawdown of additional $10,000,000 available under the October 2021 private placement of convertible notes and received proceeds of $9,500,000 net of issuance costs. The terms of the convertible notes are identical to the original convertible notes issued in October 2021 including a maturity date of October 2023 subject to a one-year extension at the option of the Company upon providing at least 30 days prior notice and issuing additional convertible notes to the holders on a pro-rata basis in an aggregate principal amount equal to 1% of the aggregate principal amount of the convertible notes outstanding as of the date of the extension notice.

The Company also issued an aggregate of 5,000,000 share purchase warrants being one warrant for each US$2.00 principal amount of convertible notes. The warrants to be received have an exercise price of a $0.45CAD ($0.36) and have a three-year term.

Components of Our Results of Operations

Revenue

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

Operating Expenses

Operating expenses consist of administrative, selling and marketing costs. Administrative expenses primarily represent contractor costs, personnel costs, including salaries and 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, lines of credit and convertible debentures, (ii) non-cash interest expense for debt issuance costs, financing costs and debt discounts related to debt borrowings and the issuance of our convertible debentures, (iii) mark-to-market changes in the fair value of the Company's investment in Greenlane Holdings Inc. ("**Greenlane**"), (iv) change in fair value of derivative liabilities, (v) foreign currency translation and (vi) losses from debt extinguishment.

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.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected quarterly financial information for the periods indicated.

	Three months ended							
	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022
Revenue	$ 416,172	$ 561,579	$ 998,412	$ 1,182,399	$ 1,288,633	$ 1,657,771	$ 2,080,061	$ 2,541,008
Operating expenses	$ 776,656	$ 764,561	$ 1,160,486	$ 1,386,230	$ 1,065,960	$ 891,828	$ 1,944,168	$ 1,728,200
Gain (loss) from operations	$ (360,484)	$ (202,982)	$ (162,074)	$ (203,831)	$ 222,673	$ 765,943	$ 135,893	$ 812,808
Other expense (income)	$ 42,673	$ 277,596	$ 466,472	$ 1,269,309	$ 1,968,484	$ 4,335,529	$ 2,553,602	$ (614,810)
Net income (loss)	$ (403,157)	$ (480,578)	$ (628,546)	$ (1,473,140)	$ (1,745,811)	$ (3,569,586)	$ (2,417,709)	$ 1,427,618
Income (loss) per share - basic and diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.02)	$ 0.01
Weighted average shares outstanding - basic and diluted	70,307,170	103,500,701	103,882,966	103,885,041	103,885,041	103,885,041	103,885,041	103,885,041
Total assets	$ 17,372,528	$ 22,561,382	$ 35,384,224	$ 52,306,515	$ 53,865,540	$ 55,640,202	$ 72,131,050	$ 88,351,330
Total liabilities	$ 6,788,683	$ 12,213,564	$ 25,287,922	$ 42,888,986	$ 46,051,676	$ 50,359,567	$ 65,553,087	$ 80,785,719

The Company’s quarterly consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as are issued by the International Accounting Standards Board (“IASB”) and are reported in U.S. dollars. The above quarterly information is presented on the same basis as the audited consolidated financial statements and should be read in conjunction with the statements and the accompanying notes.

RESULTS OF OPERATIONS

Three months ended December 31, 2022, as compared to the three months ended December 31, 2021

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

	Three months ended December 31,	
	2022	**2021**
Revenue	$ 2,541,008	$ 1,182,399
Operating expenses	$ 1,728,200	$ 1,386,230
Gain (loss) from operations	$ 812,808	$ (203,831)
Other (income) expense	$ (614,810)	$ 1,269,309
Net income (loss)	$ 1,427,618	$ (1,473,140)
Income (loss) per share - basic and diluted	$ 0.01	$ (0.01)
Weighted average shares outstanding - basic and diluted	103,885,041	103,885,041

Revenue

Revenues for the three months ended December 31, 2022, were $2,451,008 compared with $1,182,399 for the three months ended December 31, 2021. The increase of $1,358,609 for three months ended December 31, 2022, as compared to 2021 was attributable to revenue recognized from financing income associated with 105 new financing leases.

Operating Expenses

Operating expenses for the three months ended December 31, 2022, were $1,728,800 compared with $1,386,230 for the three months ended December 31, 2021. The following table presents the components of operating expenses:

	Three months ended December 31,	
	2022	2021
Administrative expenses:		
Personnel and contractor costs	$ 935,667	$ 993,688
Professional fees	216,374	257,150
Incentive compensation	291,386	5,527
Management fee	-	-
Insurance	12,995	18,242
Depreciation expense	4,838	3,970
Other	122,863	64,451
Total administrative expenses	1,584,123	1,345,428
Selling and marketing expenses:		
Personnel and contractor costs	$ 132,222	$ 30,852
Marketing and trade shows	11,845	9,522
Other	10	428
Total selling and marketing expenses	144,077	40,802
	$ 1,728,200	$ 1,386,230

Administrative expenses for the three months ended December 31, 2022, were $1,584,123 compared with $1,345,428 for the three months ended December 31, 2021. The increase of $238,695 for the three months ended December 31, 2022, as compared to same period in 2021 was primarily attributable to an increase of approximately $286,000 in non-cash incentive compensation as a result of the Company's stock option grants in September 2021 and January, June and October of 2022. Additionally, other expense increased approximately $67,000 related to increased filing fees and property taxes associated with the Company's growing lease portfolio. The above increases are partially offset by decreases of approximately $58,000 in personnel and contractor costs related to decreased use of third-party contractors and $41,000 in professional fees related to 2021 non-recurring projects and financing activities.

Selling and marketing expenses for the three months ended December 31, 2022, were $144,077 compared with $40,802 for the three months ended December 31, 2021. The increase of $103,275 for the three months ended December 31, 2022, as compared to the same period in 2021 was primarily attributable to an increase in personnel and contractor costs to support the Company's revenue growth.

Other (Income) Expense

Other income for the three months ended December 31, 2022, was $(614,810) compared with other expense of $1,269,309 for the three months ended December 31, 2021. The reduction in other expense of $1,884,119 for the three months ended December 31, 2022, as compared to same period in 2021 was primarily attributable to an increase of approximately $1,694,000 in non-cash gains related to the change in fair value of derivative liabilities. Additionally, the Company had an increase of approximately $1,511,000 in non-cash foreign currency translation activity to a gain of approximately $731,000 for the

three months ended December 31, 2022 from a loss of approximately $(780,000) in the same period of 2021. The foreign currency gains and losses are directly attributable to the translation of 2021 and 2022 convertible notes issued in Canada to US currency. The above decreases in other expense were partially offset by an increase of approximately $605,000 in financing expense and $761,000 in non-cash accretion expenses associated with new debt arrangements entered in 2021 and 2022.

Net Income (Loss)

The Company's net income for the three months ended December 31, 2022, was $1,427,618 compared to a net loss of $(1,473,140) for the three months ended December 31, 2021. The increase from a net loss to net income of $2,900,758 for the three months ended December 31, 2022, as compared to the same period in 2021 is primarily attributable to the decrease in other expenses of approximately $1,884,000 as further discussed above. Additionally, there was an increase of approximately $1,017,000 in the gain from operations to a gain of approximately $813,000 for three months ended December 31, 2022 from a loss of approximately $(204,000) in the same period of 2021.

Year ended December 31, 2022, as compared to the Year Ended December 31, 2021

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

	Year ended December 31,	
	2022	2021
Revenue	$ 7,567,473	$ 3,158,562
Operating expenses	$ 5,630,156	$ 4,087,933
Gain (loss) from operations	$ 1,937,317	$ (929,371)
Other expense	$ 8,242,805	$ 2,056,050
Net loss	$ (6,305,488)	$ (2,985,421)
Loss per share - basic and diluted	$ (0.06)	$ (0.03)
Weighted average shares outstanding - basic and diluted	103,885,041	95,509,221

	December 31,	
	2022	2021
Total assets	$ 88,351,330	$ 52,306,515
Total liabilities	$ 80,785,719	$ 42,888,986

Revenue

Revenues for the year ended December 31, 2022, were $7,567,473 compared with $3,158,562 for the year ended December 31, 2021. The increase of $4,408,911 for the year ended December 31, 2022, as compared to the same period in 2021 was attributable to revenue recognized from financing income associated with 105 new financing leases.

Operating Expenses

Operating expenses for the year ended December 31, 2022, were $5,630,156 compared with $4,807,933 for the year ended December 31, 2021. The following table presents the components of operating expenses:

	Year ended December 31,	
	2022	**2021**
Administrative expenses:		
Personnel and contractor costs	$ 2,047,546	$ 1,606,497
Professional fees	628,998	982,358
Incentive compensation	1,966,075	688,045
Management fee	-	171,001
Insurance	176,548	188,672
Depreciation expense	17,131	17,498
Other	384,222	181,359
Total administrative expenses	5,220,520	3,837,830
Selling and marketing expenses:		
Personnel and contractor costs	$ 366,144	$ 186,547
Marketing and trade shows	43,277	57,970
Other	215	5,586
Total selling and marketing expenses	409,636	250,103
	$ 5,630,156	$ 4,087,933

Administrative expenses for the year ended December 31, 2022, were $5,220,520 compared with $3,837,830 for the year ended December 31, 2021. The increase of $1,382,690 for the year ended December 31, 2022, as compared to same period in 2021 was primarily attributable to an increase of approximately $1,278,000 in non-cash incentive compensation as a result of the Company's stock option grants in September 2021 and January, June and October of 2022. Additionally, personnel and contractor costs increased approximately $441,000 resulting from executive compensation that did not start being paid until the third quarter of 2021 and increased personnel to support the Company's revenue growth. Other expenses also increased approximately $187,000 related to increased travel costs, director fees, filing fees and property taxes associated with the Company's growing lease portfolio. The above increases are partially offset by a decrease of approximately $353,000 in professional fees related to 2021 non-recurring projects and financing activities, and a decrease of approximately $171,000 in management fees as result of the Company terminating its management services agreement with Archytas Ventures, LLC ("**Archytas**") effective January 2019 (the "**Archytas Agreement**") in July 2021 and entering 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 Archytas Agreement.

Selling and marketing expenses for the year ended December 31, 2022, were $409,636 compared with $250,103 for the year ended December 31, 2021. The increase of $159,533 for the year ended December 31, 2022, as compared to the same period in 2021 was primarily attributable to an increase in personnel and contractor costs to support the Company's revenue growth.

Other Expense

Other expense for the year ended December 31, 2022, was $8,242,805 compared with $2,056,050 for the year ended December 31, 2021. The increase in other expense of $6,186,755 for the year ended December 31, 2022, as compared to same period in 2021 was primarily attributable to increases of approximately $3,413,000 in financing expense and $3,015,000 in non-cash accretion expenses associated with new debt arrangements entered in 2021 and 2022. Additionally, the Company had an increase of approximately $1,731,000 in non-cash foreign currency translation losses related to the translation of convertible notes issued in Canada to US currency and a loss on the extinguishment of debt of approximately $370,000. The above increases were partially offset by net non-cash gains of approximately $2,357,000 related to the change in fair value of derivative liabilities from the year ended December 31, 2021 to the year ended December 31, 2022.

Net Loss

The Company's loss for the year ended December 31, 2022, was $(6,305,488) compared to a loss of $(2,985,421) for the year ended December 31, 2021. The increase in net loss of $(3,320,067) for the year ended December 31, 2022, as compared to the same period in 2021 is attributable to the increase in other expenses of approximately $6,187,000 as further discussed above. The increase in other expense is partially offset by an increase of approximately $2,866,000 in gain (loss) from operations to a gain of approximately $1,937,000 in the year ended December 31, 2022, from a loss of approximately $(929,000) in the same period of 2021.

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 lines of credit. The Company's ability to fund its operations, purchase financing equipment, 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 December 31, 2022, the Company had $1,040,932 of cash, working capital (deficit) (current assets minus current liabilities) of $(52,023,257) and an accumulated deficit of $(27,930,852) compared with $17,119,026 of cash, working capital of $19,322,811 and an accumulated deficit of $(21,625,364) as of December 31, 2021. The decrease in cash of $16,078,094 and the increase in accumulated deficit of $(6,305,488) are directly attributable to the purchases of equipment related to new financing leases as well as the ongoing funding of operations. The decrease in working capital of $(71,346,068) is primarily the result of the increase in debt obligations due within the next year. The majority of the current liabilities consist of convertible debentures. The convertible notes mature in October 2023 subject to a one-year extension at the option of the Company upon providing at least 30 days prior notice and issuing additional convertible notes to the holders on a pro-rata basis in an aggregate principal amount equal to 1% of the aggregate principal amount of the convertible notes outstanding as of the date of the extension notice.

Historically, the Company has been successful in obtaining sufficient funding for operating and capital requirements.

Cash Flows

The following table sets forth the primary sources and uses of cash for the years ended December 31, 2022, and 2021:

	Year ended December 31,	
	2022	**2021**
Cash flows (used in) operating activities	$ (50,669,940)	$ (29,649,718)
Cash flows provided by (used in) investing activities	$ (10,121)	$ 86,845
Cash flows provided by financing activities	$ 32,114,437	$ 45,419,575

Cash Flow from Operating Activities

Net cash used in operating activities for the year ended December 31, 2022, was $(50,669,940) due to a change in working capital items of $(47,725,163) primarily related to new financing leases and a loss for the period of $(6,305,488). The above decreases were offset in part by non-cash adjustments of $3,360,711 including mark-to-market fair value change of investments and derivative liabilities, accretion of debt issuance costs and discounts, paid-in kind interest, depreciation and non-cash incentive compensation.

Net cash used in operating activities for the year ended December 31, 2021, was $(29,649,718) due to a change in working capital items of $(27,580,052) primarily related to new financing leases and a loss for the period of $(2,985,421). The above decreases were offset in part by non-cash adjustments of $915,755 including mark-to-market fair value change of investments and derivative liabilities, accretion of debt issuance costs and discounts, common shares issued for services, depreciation and non-cash incentive compensation.

Cash Flow from Investing Activities

Net cash used in investing activities for the year ended December 31, 2022, of $(10,121) was attributable to computer equipment purchases.

Net cash provided by investing activities for the year ended December 31, 2021, of $86,845 was attributable to the sale of stock in the Company's Greenlane investment.

Cash Flow from Financing Activities

Net cash provided by financing activities for the year ended December 31, 2022 was $32,114,437 and was attributable to $10,000,000 and $42,042,955 of proceeds from issuance of convertible notes and line of credits borrowings, respectively, net of repayments and financing costs of $(19,928,518).

Net cash provided by financing activities for the three months ended December 31, 2021, was $45,419,575 and was attributable to $33,500,000 and $14,965,000 of proceeds from issuance of convertible notes and line of credits and term loans debt borrowings, respectively, net of repayments and financing costs of $(12,920,557), and approximately $9,875,000 of net proceeds received from the Company's private placement equity issuance in March 2021.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company may be subject to contractual obligations to make future payments in relation to contracts or other financial commitments. As of December 31, 2022, the Company is not aware of any legal or financial contractual obligations or financial commitments outside of its loans and borrowings.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company has no 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 of the Company.

RELATED PARTY TRANSACTIONS

Related parties include officers, directors and employees of the Company that are investors and debt holders.

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 for the periods noted below:

	Year ended December 31,	
	2022	**2021**
Salaries, contractor costs, management fees and benefits	$ 975,521	$ 1,021,075
Incentive compensation (non-cash)	1,011,317	367,741
	$ 1,986,838	$ 1,388,816

Related Party Transactions and Amounts Due to Related Parties

The following table presents expenses incurred on behalf of the Company by Archytas pursuant to the Archytas Agreement. Archytas is a shareholder of the Company, having been involved in the initial formation of XSI as described in the "*Company Background"* section above, and is a company controlled by Messrs. Kivitz and Radbod.

Amounts due to related parties at December 31, 2020	$	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 December 31, 2021	$	1,849
Operating expenses		21,242
Less payments to related parties		(17,277)
Amounts due to related parties at December 31, 2022	$	5,814

In March 2021, the Company received gross proceeds of $1,249,940 from Archytas related to the issuance of 5,251 proportionate voting shares of the Company to Archytas. See "*Related Party Management Services Agreement*" below.

Related Party Management Services Agreement

Effective January 2019, the Company entered into the Archytas Agreement at a monthly rate of $28,667 and a term of five years, with one-year automatic renewals, whereby Archytas agreed to provide day-to-day executive management and support to the Company. In March 2021, the Company authorized the issuance of 1,432,535 subordinate voting shares to Archytas as payment for a 2020 management fee bonus and the 2021 first quarter management fee. The Company recorded $255,000 as a reduction to accrued expenses for previously accrued bonuses and $nil and $171,001 as management fee expense for the year ended December 31, 2021, respectively.

In July 2021, the Company and Archytas mutually agreed to terminate the Archytas 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 Archytas 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 the Company's consolidated financial statements.

Related party loans and borrowings

In August and November 2021, the Company entered into syndication term loans with certain officers and directors of the Company with borrowings totaling $550,000 and repayments totaling $141,780 resulting in a balance outstanding of $371,659 as of December 31, 2022.

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New standards adopted

Effective January 1, 2022, the Company adopted the amended *IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets ("IAS 37")*. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in

fulfilling the contract. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standard for *IAS37*.

New standards and interpretations to be adopted in future periods

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2022. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

Depreciation and amortization of servicing 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 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 16 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.

Derivative Liabilities

Derivative liabilities are initially recognized at fair value on the date entered and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognized immediately as a component of the change in fair value of derivative liabilities line item in the consolidated statements of loss and comprehensive loss. The fair value of the derivative liabilities is subject to measurement uncertainty due to the assumptions made for the inputs in the valuation models.

Compound Financial Instruments

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

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 International Accounting Standard 21. The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

Determination of Discount Rates

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

Determination of Financing Lease or Operating Lease

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

Expected Credit Losses

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 lifetime 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, Gross Domestic Product growth, prevailing interest rates and expectations of future rates, fiscal policy and inflation rates; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

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

As of December 31, 2022, 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, financing and other receivables. The Company does not have significant credit risk with respect to customers as all payments are direct debited from customer accounts and all customers go through initial and periodic qualitative and quantitative credit analysis to evaluate and mitigate credit risk. 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 financing receivables as of December 31, 2022.

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

Liquidity Risk

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

At December 31, 2022, the Company had current assets of $24,002,779 and current liabilities of $75,025,986. All current liabilities are due within one year.

At December 31, 2022, the Company also has the following obligations due:

	Less than 6 months	6 months to 1 years	1 to 3 years	Total
Trade and other payables	$ 2,468,341	$ -	$ -	$ 2,468,341
Accrued expenses	6,369,637	-	-	6,369,637
Loans and borrowings (1)	25,261,175	45,207,941	6,212,002	76,681,118
	$ 34,099,153	$ 45,207,941	$ 6,212,002	$ 85,519,096
Commitments	-	-	-	-
Balance at December 31, 2022	$ 34,099,153	$ 45,207,941	$ 6,212,002	$ 85,519,096

Note to the table:
(1) Represents undiscounted loans and borrowings.

Market Risk

Currency Risk

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

	December 31,	
	2022	2021
Tax receivable	$ 18,036	$ 20,920
Trade payable	$ 11,926	$ 47,021
Loans and borrowings (1)	$ 5,633,000	$ 5,633,000

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 lines of credit are 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. Beginning in 2022, the Company began indexing a portion of new lease originations based on short-term rates plus a spread. That spread is determined by the perceived credit risk of the customer as of origination date and subject to approval of the Company's Investment Committee.

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 $100 in the condensed consolidated statements of loss and comprehensive loss for the year ended December 31, 2022.

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 year ended period covered by this MD&A, 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 annual 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.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 75,526,443 subordinate voting shares, 28,358 proportionate voting shares, 28,570,077 warrants and 14,340,921 stock options issued and outstanding. The weighted average strike for the warrants is $0.69CAD ($0.53) and the weighted average strike price of the options is $0.14. Each warrant and each stock option entitle the holder to acquire one subordinate voting share (or the proportionate number of proportionate voting shares, as applicable).

SUBSEQUENT EVENTS

Lease Originations

In the months of January through April 2023, the Company completed 24 lease transactions with publicly-traded and private cannabis companies including Aeriz, Ayr Wellness, Green Dragon / Eaze, Jushi, and PharmaCann, amongst others. During this period, the Company originated over $7,200,000 million of leases.

Stock Option Activity

In February 2023 , the Company granted a total of 6,187,391 common share options and 28,335 proportionate common share options to employees, directors, and consultants of the Company with an exercise price of $0.07CAD ($0.05). The options have a term of ten years, with 25% vesting immediately and the remainder vesting evenly over three years. A total of 24,480 proportionate common share options were granted to directors and officers. Additionally, in March 2023 the Company cancelled 25,023,888 options of which 19,700,737 were options of directors, officers and a related party (Archytas).

Financing Receivable

In March 2023, the Company was notified that all the assets of one its customers were put in receivership as result of ongoing debt dispute with a lender of the customer. As of December 31, 2022, the Company had approximately $4,493,000 and $1,373,000 of outstanding undiscounted lease receivables and unearned finance income, respectively, for this customer. As of the date of this report the customer has not missed any payments and the Company has confirmed that the customer plans to continue to use and pay for the Company's leased equipment in due course. Therefore, the Company has concluded that an allowance for an expected credit loss is not warranted as of December 31, 2022.

Management and Board Changes

In March 2023, the Company announced that Justin Vuong has been named Chief Financial Officer ("CFO") effective June 1 , 2023. Mr. Vuong succeeds the Company's current CFO Stephen Christoffersen, who will remain active as a member of the Company's Board of Directors, Investment Committee, and has been appointed as Audit Chair.

RISK FACTORS

Credit Risks May Lead to Unexpected Losses

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

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

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

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

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

The Company's Provision for Credit Losses May Prove Inadequate

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

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

The Collateral Securing an Equipment Lease May Not Be Sufficient

While most of the Company's equipment leases are secured by a lien on specified collateral of the customer, there is no assurance that the Company's has obtained or properly perfected its liens, or that the value of the collateral securing any particular equipment lease will protect the Company's from suffering a partial or complete loss if the equipment lease becomes non-performing and the Company's moves to foreclose

on the collateral. In such event, the Company could suffer lease losses which could have a material adverse effect on its revenue, net income, financial condition and results of operations.

Reliance on Key Suppliers

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

Key Officers and Employees

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

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

Customer Concentration

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

Foreign Private Issuer Status

The Company is designated as a Foreign Private Issuer as defined in Rule 405 under the *United States Securities Act of 1933*, as amended (the "**1933 Act**") and Rule 3b-4 under the United States Securities Exchange Act of 1934 (the "**Exchange Act**"). The term ''Foreign Private Issuer'' is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions: (i) more than 50 percent of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the United States; and (i) any one of the following: (A) the majority of the executive officers or directors are United States citizens or residents, or (B) more than 50 percent of the assets of the issuer are located in the United States, or (C) the business of the issuer is administered principally in the United States. A ''holder of record'' is defined by Rule 12g5-1 under the Exchange Act. Generally speaking, the holder identifies on the record of security holders is considered as the record holder.

In December 2016, the Securities and Exchange Commission ("**SEC**") issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, the Company became a ''Foreign Private Issuer'' upon completion of the transaction completed on September 11, 2019 pursuant to which the Company, through a wholly-

owned subsidiary, acquired all of the issued and outstanding class A and class B common stock, stock options and warrants of Xtraction Services Inc. Should the SEC's guidance and interpretation change, there is a risk that the Company may lose its Foreign Private Issuer status.

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

Additional Financing

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

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

Depending on the availability of traditional banking services to the Company, the Company may enter into one or more credit facilities with one or more lenders in order to finance the operations of the Company's business. It is anticipated that any such credit facility will contain a number of common covenants that, among other things, might restrict the ability of the Company to: (i) acquire or dispose of assets or businesses; (ii) incur additional indebtedness; (iii) make capital expenditures; (iv) make cash distributions; (v) create liens on assets; (vi) enter into leases, investments or acquisitions; (vii) engage in mergers or consolidations; or (viii) engage in certain transactions with affiliates, and otherwise restrict activities of the Company (including its ability to acquire additional investments, businesses or assets, certain changes of control and asset sale transactions) without the consent of the lenders. In addition, such a credit facility would likely require the Company to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. Such restrictions may limit the Company's ability to meet targeted returns and reduce the amount of cash available for investment. Moreover, the Company may incur indebtedness under credit facilities that bear interest at a variable rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable rate debt and could reduce the amount of cash available for various purposes.

Risk Factors specifically related to the United States Regulatory System

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

XSF's business and that of its customers incurs ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results

of operations and financial condition of XSF and, therefore, on XSF's prospective returns. Further, XSF or its customers may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

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

Multiple states in the U.S. have enacted comprehensive legislation to regulate the sale and use of medical and recreational cannabis. Notwithstanding the permissive regulatory environment of medical or recreational cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the United States *Controlled Substance Act* of 1970 (the "**CSA**"). As such, cannabis-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under U.S. federal law. Strict compliance with state laws with will neither absolve XSF of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against XSF. Any such proceedings brought against XSF may adversely affect XSF's operations and financial performance.

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

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

On February 8, 2018, following discussions with the Canadian Securities Administrators ("**CSA**") and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**TMX MOU**") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory

framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of the subordinate voting shares of the Company to make and settle trades. In particular, the subordinate voting shares of the Company would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the subordinate voting shares through the facilities of a stock exchange.

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

Further, on January 4, 2018, U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice federal policy guidance governing enforcement of marijuana laws, as set forth in a series of memos and guidance from 2009-2014, principally the Memorandum by former Deputy Attorney General James Michael Cole issued on August 29, 2013, under the Obama administration (the "**Cole Memo**"). The Cole Memo generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of this memo and other Obama-era prosecutorial guidance did not create a change in federal law as the Cole Memorandums were never legally binding; however, the revocation removed the guidance of the United States Department of Justice ("**DOJ**") to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandums' guidelines should not be a prosecutorial priority. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

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

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memo discussed above, on February 8, 2018 the CSA published a Staff Notice 51-352 setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers

that provide goods and services to third parties involved in the U.S. cannabis industry. XSF views this staff notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as XSF's ability to pursue future investment and opportunities in the U.S.

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

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

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

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

XSF Could be Subject to Criminal Prosecution or Civil Liabilities Under Rico

The Racketeer Influenced Corrupt Organizations Act ("**RICO**") criminalizes the use of any profits from certain defined "racketeering" activities in interstate commerce. While intended to provide an additional cause of action against organized crime, due to the fact that cannabis is illegal under U.S. federal law, the production and sale of cannabis qualifies cannabis-related businesses as "racketeering" as defined by RICO, as could aiding and abetting such activities through XSF's business operations. As such, all officers, managers and owners in a cannabis-related business could be subject to criminal prosecution under RICO, which carries substantial criminal penalties.

RICO can create civil liability as well: persons. Persons harmed in their business or property by actions which would constitute racketeering under RICO often have a civil cause of action against such "racketeers," and can claim triple their amount of estimated damages in attendant court proceedings. XSF or its subsidiaries or portfolio companies, as well as its and their officers, managers and

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

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

Despite these laws, the United States Department of the Treasury memorandum issued on February 14, 2014 (the "**FinCEN Memorandum**") states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking FinCEN enforcement. It refers to and incorporates supplementary Cole Memo guidance issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA on the same day.

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

Ability to Access Banking Services

Because the production, sale, and use of cannabis is still illegal under the CSA, financial institutions may refuse to accept deposits from, provide banking services to, or provide conventional financing to the XSF. While XSF currently maintains operating and other bank accounts, there is no guarantee that the financial institutions which XSF currently utilizes will continue to provide such services to XSF, which could slow or hinder XSF's ability to make investments and fund operations.

Under United States federal law, it may also be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of cannabis. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses under

the Bank Secrecy Act. Therefore, under the Bank Secrecy Act, banks or other financial institutions that provide cannabis businesses with a checking account, debit or credit card, small business loan, or any other service could be charged with money laundering or conspiracy. Notwithstanding the limitations imposed by the Bank Secrecy Act, the FinCEN Memorandum has provided for certain financial institutions to provide such services to XSF and other cannabis related entities.

Ability to Access Private and Public Capital

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

Risk of Civil Asset Forfeiture

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

Public Opinion and Perception

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

Enforceability of Contracts

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

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

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

XSF's operations in the United States may be subject to heightened scrutiny.

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

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

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

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

Heightened Risk of Audit

XSF believes that there is a greater likelihood that the Internal Revenue Service ("**IRS**") will audit the tax returns of cannabis-related businesses. Any such audit of our tax returns could result in our being required to pay additional tax, interest and penalties, as well as incremental accounting and legal expenses, which could be material.

U.S. Bankruptcy Protections

Because Cannabis is a Schedule I controlled substance under the CSA, the U.S. federal courts have denied cannabis businesses bankruptcy protections under U.S. federal law; thus making it very difficult for lenders or credits to recoup their investments in the cannabis industry in the event of a failed cannabis-related business. If a customer of XSF were to fail and experience a bankruptcy event, there is no guarantee that U.S. federal bankruptcy protections would be available to XSF to recoup its debt as a creditor, which would have a material adverse effect on XSF. Likewise, if XSF were to experience a bankruptcy event, there is no guarantee that U.S. bankruptcy protections would be available to it, which could have a material adverse effect on it and may make it more difficult to obtain equity or debt financing.

Public health epidemics or outbreaks, such as COVID-19, could materially and adversely impact business.

In December 2019, a novel strain of coronavirus (COVID-19) emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it spread globally shortly thereafter. Because COVID-19 infections have been reported throughout the United States, certain federal, state and local governmental authorities have issued stay-at-home orders, proclamations and/or directives aimed at minimizing the spread of COVID-19. Additional, more restrictive proclamations and/or directives may be issued in the future.

To protect the health and well-being XSF's employees and customers, the Company implemented work-from-home requirements, made substantial modifications to employee travel policies, and cancelled or shifted marketing and other corporate events to virtual-only formats. While XSF continues to monitor and adjust current policies as more information and public health guidance become available, such precautionary measures could negatively affect XSF's sales and marketing efforts, delay and lengthen sales cycles, or create operational or other challenges.

While the Company has not been significantly adversely impacted by COVID-19 to date, COVID-19 continues to present the potential for adverse risks. The potential impacts of COVID-19 on the business, financial condition, and results of operations include, but are not limited to, the following:

- There may be a decrease in the willingness or ability of certain customers or partners to move forward with integrations of our platform into their products or media due to restructurings

or cutbacks within their organizations or because their business, financial condition or operations have been adversely impacted by COVID-19.

- Customers could potentially be negatively impacted by the outbreak, which may reduce their budgets for online advertising and marketing. As a result, revenue, gross profit and net income may be negatively impacted.
- The situation may worsen if the COVID-19 outbreak continues. Customers may request additional time to pay the Company or fail to pay the Company on time, or at all, which may require the recording of additional allowances.
- The global stock markets have experienced, and may continue to experience, significant volatility from the COVID-19 outbreak, which may adversely affect XSF's ability to raise funds in the capital markets.
- If one or more of XSF's employees or customers becomes ill from coronavirus and attributes their infection to the XSF team, including through exposure at one of the offices or facilities, XSF could be subject to allegations of failure to adequately mitigate the risk of exposure. Such allegations could harm XSF's reputation and expose the company to the risks of litigation and liability.

The ultimate impact of the COVID-19 pandemic on operations is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 pandemic, new information which may emerge concerning the severity of the COVID-19 pandemic, and any additional preventative and protective actions that governments, or XSF, may direct, which may result in an extended period of continued business disruption, reduced customer traffic and reduced operations. Any resulting financial impact cannot be reasonably estimated at this time but could have a material adverse impact on business, financial condition and results of operations.

ADDITIONAL INFORMATION

Additional information regarding the Company is available on SEDAR at www.sedar.com.