XS Financial Inc.

Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2023, and 2022

(Unaudited)

(Expressed in United States Dollars)

XS Financial Inc.

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

XS Financial Inc.
Unaudited condensed consolidated statements of loss and comprehensive loss
For the three and six months ended June 30, 2023 and 2022
(Expressed in United States dollars)

		Three months ended June 30,		Six months ended June 30,	
	Note	**2023**	**2022**	**2023**	**2022**
Revenue	5	$ 2,990,414	$ 1,657,771	$ 5,833,383	$ 2,946,404
Operating expenses					
Administrative expenses	6	1,407,133	788,824	3,685,084	1,791,130
Sales and marketing expenses	6	87,445	103,004	189,829	166,658
Gain from operations		1,495,836	765,943	1,958,470	988,616
Financing expense, net	13	1,916,348	1,083,767	3,732,646	2,213,110
Accretion expense	13	1,434,561	841,261	2,784,492	1,639,824
Unrealized loss in fair value change of investments	7	1,189	32,384	851	68,335
Change in fair value of derivative liabilities	13,14	(233,779)	1,384,933	(798,348)	1,713,810
Other expense (income)	6	54,762	993,184	(96,117)	668,934
Net loss		$ (1,677,245)	$ (3,569,586)	$ (3,665,054)	$ (5,315,397)
Other comprehensive loss					
Items that will subsequently be reclassified to operations:					
Unrealized gain (loss) on foreign currency translation		56,912	989,272	(20,283)	666,615
Comprehensive loss		$ (1,620,333)	$ (2,580,314)	$ (3,685,337)	$ (4,648,782)
Loss per share - basic and diluted		$ (0.02)	$ (0.03)	$ (0.04)	$ (0.05)
Weighted average shares outstanding:					
Basic and diluted		103,885,041	103,885,041	103,885,041	103,885,041

Approved on behalf of the Board:

Gary Herman, Director Andrew Mitchell, Director Stephen Christoffersen, Director

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

XS Financial Inc.
Unaudited condensed consolidated statements of financial position
As of June 30, 2023 and December 31, 2022
(Expressed in United States dollars)

	Note	June 30, 2023	(Audited) December 31, 2022
Assets			
Current assets			
Cash		$ 115,558	$ 1,040,932
Investments	7	431	1,281
Financing receivables, short-term	8	26,353,721	22,763,720
Prepaid and other current assets	9	92,818	196,796
Total current assets		26,562,528	24,002,729
Non-current assets			
Servicing and property equipment	10	11,040	20,376
Financing receivables, long-term	8	61,328,957	64,328,225
Total non-current assets		61,339,997	64,348,601
Total assets		$ 87,902,525	$ 88,351,330
Shareholders' equity and liabilities			
Current liabilities			
Loans and borrowings, short-term	13	$ 72,207,876	$ 66,323,801
Trade and other payables	11	594,467	2,468,341
Accrued expenses	12	6,459,758	6,369,637
Warrant derivative liabilities	14	65,859	346,207
Embedded derivative liabilities	13	-	518,000
Total current liabilities		79,327,960	76,025,986
Non-current liabilities			
Loans and borrowings, long-term	13	3,182,424	4,759,733
Total non-current liabilities		3,182,424	4,759,733
Total liabilities		82,510,384	80,785,719
Shareholders' equity			
Share capital	15	21,158,842	21,158,842
Reserves		11,757,751	10,245,884
Conversion feature - debentures		930,697	930,697
Accumulated other comprehensive income		3,140,757	3,161,040
Accumulated deficit		(31,595,906)	(27,930,852)
Total shareholders' equity		5,392,141	7,565,611
Total shareholders' equity and liabilities		$ 87,902,525	$ 88,351,330

Nature of operations and background information (Note 1)
Contingencies (Notes 13 and 19)
Subsequent events (Note 22)

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

XS Financial Inc.
Unaudited condensed consolidated statements of changes in equity
For the six months ended June 30, 2023 and 2022
(Expressed in United States dollars)

	Note	Number of Common Shares	Number of Proportionate Common Shares	Share Capital	Reserves	Conversion feature for debentures	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
Balance at January 1, 2022		75,526,443	28,358	$ 21,158,842	$ 8,279,809	$ 930,697	$ 673,510	$ (21,625,364)	$ 9,417,494
Share-based incentive compensation	17	-	-	-	511,923	-	-	-	511,923
Net loss and comprehensive loss		-	-	-	-	-	666,615	(5,315,397)	(4,648,782)
Balance at June 30, 2022		75,526,443	28,358	$ 21,158,842	$ 8,791,732	$ 930,697	$ 1,340,125	$ (26,940,761)	$ 5,280,635
Balance at January 1, 2023		75,526,443	28,358	$ 21,158,842	$ 10,245,884	$ 930,697	$ 3,161,040	$ (27,930,852)	$ 7,565,611
Conversion of proportionate common shares to common shares	15	2,201,601	(2,202)	-	-	-	-	-	-
Share-based incentive compensation	17	-	-	-	1,511,867	-	-	-	1,511,867
Net loss and comprehensive loss		-	-		-	-	(20,283)	(3,665,054)	(3,685,337)
Balance at June 30, 2023		77,728,044	26,156	$ 21,158,842	$ 11,757,751	$ 930,697	$ 3,140,757	$ (31,595,906)	$ 5,392,141

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

XS Financial Inc.
Unaudited condensed consolidated statements of cash flows
For the six months ended June 30, 2023 and 2022
(Expressed in United States dollars)

	Note	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash flows from operating activities			
Net loss for the year		$ (3,665,054)	$ (5,315,397)
Adjustments to reconcile loss to net cash flows:			
Depreciation and amortization	10	9,336	8,185
Unrealized loss on investments	7	851	68,335
Change in fair value of derivative liabilities	13,14	(798,348)	1,713,810
Gain on lease termination	5,8	(68,800)	-
Share-based incentive compensation expense	17	1,511,867	511,923
Interest expense paid in kind	13	444,516	337,013
Accretion expense	13	2,784,492	1,639,824
		218,860	(1,036,307)
Change in working capital items:			
Financing receivables	8	(521,933)	(20,018,442)
Prepaid and other current assets	9	103,978	24,657
Trade and other payables	11	(1,873,874)	696,276
Accrued expenses	12	90,120	1,911,955
Net cash flows (used in) operating activities		(1,982,849)	(18,421,861)
Cash flows from investing activities			
Purchases of servicing and property equipment	10	-	(2,833)
Net cash flows (used in) investing activities		-	(2,833)
Cash flows from financing activities			
Proceeds from loans and borrowings	13	13,100,000	1,900,000
Repayment of loans and borrowings	13	(12,022,242)	(728,332)
Net cash flows provided by financing activities		1,077,758	1,171,668
Effect of exchange rate changes on cash		(20,283)	666,615
Net (decrease) in cash		(925,374)	(16,586,411)
Cash at beginning of the period		1,040,932	17,119,026
Cash at end of the period		$ 115,558	$ 532,615
Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 3,208,896	$ 1,876,097

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

(1) Nature of operations and background information

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

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

The accompanying consolidated financial statements have been approved by the Company's board of directors and are authorized for issuance as of August 28, 2023.

(2) Basis of presentation

Statement of compliance

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

Basis of consolidation

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

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

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

Functional and presentation currency

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

Basis of measurement

The condensed consolidated financial statements have been prepared on the going concern and historical cost bases, except for derivative financial instruments and hybrid financial liabilities designated at fair value through net income or loss, which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. In addition, these condensed consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Use of estimates and judgement

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the management of the Company to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the condensed consolidated financial statements and their effect are disclosed in Note 4 below.

(Expressed in United States Dollars)

(3) Significant accounting policies

The Company has applied the same accounting policies and methods of computation in its interim condensed consolidated financial statements as in its 2022 and 2021 annual consolidated financial statements. The Company had no additional new standards adopted that resulted in changes to the Company's accounting policies for the six months ended June 30, 2023, except for adoption of the amended *IAS 1 – Presentation of Financial Statements* on January 1, 2023.

Fair value of financial instruments

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

	Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
As of June 30, 2023:				
Assets:				
Investments (Note 7)	$ 431	$ -	$ -	$ 431
Liabilities:				
Warrant derivative liabilities (Note 14)	$ -	$ -	$ 65,859	$ 65,859
As of December 31, 2022:				
Assets:				
Investments (Note 7)	$ 1,281	$ -	$ -	$ 1,281
Liabilities:				
Warrant derivative liabilities (Note 14)	$ -	$ -	$ 346,207	$ 346,207
Embedded derivative liabilities (Note 13)	$ -	$ -	$ 518,000	$ 518,000
	$ -	$ -	$ 864,207	$ 864,207

The estimated fair value of the warrant derivative and embedded derivative liabilities would increase or decrease if the expected volatility and conversion price was higher or lower. The following table shows a reconciliation for Level 3 fair values during the six months ended June 30, 2023:

	Warrant derivative liabilities	**Embedded derivative liabilities**	**Total**
Balance at December 31, 2022	$ 346,207	$ 518,000	$ 864,207
Net change in unrealized fair value	(280,348)	(518,000)	(798,348)
Balance at June 30, 2023	$ 65,859	$ -	$ 65,859

Transfers between levels are considered to occur on the date that the fair valuation methodology changes. There were no transfers between levels during the current or comparative periods.

New standards and interpretations recently adopted

Effective January 1, 2023, the Company adopted the amended *IAS 1 – Presentation of Financial Statements ("IAS 1").* The amendment provides a more general approach to the classification of liabilities under *IAS 1* based on the contractual arrangements in place at the reporting date, and clarifies 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 amendment also clarifies 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 Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standard for *IAS 1*.

(4) Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in Note 3 above, the Company's management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these assumptions.

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

Depreciation of Servicing and Property Equipment and Estimate of Useful Lives

Depreciation of servicing and property 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 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 17. 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 condensed 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. See Notes 13 and 14.

Compound Financial Instruments

The initial recognition of the compound financial instruments requires that the liability component and the conversion feature are recognized separately. Judgement is required to determine whether the conversion feature meets the definition of equity or a derivative liability. The fair values at initial recognition are subject to measurement uncertainty. See Note 13.

Functional Currency Determination

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

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

Determination of Discount Rates

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

Determination of Financing Lease or Operating Lease

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

Expected Credit Losses

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.

(Expressed in United States Dollars)

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

Definition of a Business

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

Contingencies

See Note 13 and 19.

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.

(5) Revenue

The following table presents a disaggregation of revenue by source:

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenue source:				
Financing income on financing leases (Note 8)	$ 2,870,427	$ 1,617,942	$ 5,671,472	$ 2,901,575
Other revenue	119,987	39,829	161,911	44,829
	$ 2,990,414	$ 1,657,771	$ 5,833,383	$ 2,946,404

Revenue concentration

All of the Company’s revenue is derived from customers in the United States with three customers representing 30%, 14% and 14% and 42%, 27% and 17% of the Company’s recognized revenue for the three months ended June 30, 2023, and 2022, respectively. The same three customers represented 31%, 14% and 14% and 36%, 31% and 19% of the Company's recognized revenue for the six months ended June 30, 2023, and 2022, respectively.

(Expressed in United States Dollars)

(6) Expenses by nature

The following tables presents an analysis of expense and other expense (income) by nature:

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Administrative expenses:				
Compensation and benefits	$ 715,068	$ 292,656	$ 1,355,587	$ 562,713
Share-based incentive compensation	208,880	47,085	1,511,867	511,923
Contractors and outside services	57,961	85,508	131,860	160,832
Professional fees	128,911	199,497	269,285	256,720
Travel, meals and entertainment	13,507	27,481	39,980	33,204
Insurance	27,764	59,269	51,982	117,703
Depreciation expense	4,520	4,107	9,336	8,185
Other expenses	250,522	73,221	315,187	139,850
	$ 1,407,133	$ 788,824	3,685,084	$ 1,791,130
Sales and marketing expenses:				
Compensation and benefits	$ 82,682	$ 90,963	$ 175,199	$ 143,234
Advertising and marketing	3,580	12,028	10,966	23,319
Other expenses	1,183	13	3,664	105
	$ 87,445	$ 103,004	$ 189,829	$ 166,658
Other income:				
Loss (gain) on foreign currency translation	$ 58,471	$ 993,184	$ (19,097)	$ 668,934
Gain on lease termination	(3,709)	-	(68,800)	-
Other income	-	-	(8,220)	-
	$ 54,762	$ 993,184	$ (96,117)	$ 668,934

(7) Investments

The Company owns shares of Greenlane Holdings, Inc. ("Greenlane"), a NASDAQ publicly listed company. The shares are recorded as investments on the condensed consolidated statement of financial position. Investments are classified at fair value through profit or loss ("FVTPL"). At June 30, 2023, the remaining investment in Greenlane was re-valued at $431. The Company recorded an unrealized change in fair value, resulting in a loss of $1,189 and $32,384 in the condensed consolidated statements of loss and comprehensive loss for the three months ended June 30, 2023, and 2022, respectively, and a loss of $851 and $68,335 in the condensed consolidated statements of loss and comprehensive loss for the six months ended June 30, 2023, and 2022, respectively.

(Expressed in United States Dollars)

(8) Financing receivables

The following table presents financing receivables:

	June 30, 2023	December 31, 2022
Financing receivables, short-term	$ 26,353,721	$ 22,763,720
Financing receivables, long-term	61,328,957	64,328,225
	$ 87,682,678	$ 87,091,945

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

The following table presents a maturity analysis of financing receivables, including the undiscounted lease payments to be received as of June 30, 2023:

2023	$ 18,045,964
2024	34,447,786
2025	25,151,480
2026	17,722,494
2027	6,720,125
Thereafter	8,813,037
Total undiscounted lease payments receivable	110,900,886
Unearned finance income	(23,218,208)
Net investment in lease	$ 87,682,678

Allowance for credit losses

The Company measures loss allowances based on an expected credit loss ("ECL") impairment model for all financial instruments except those measured at FVTPL. 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 June 30, 2023, the Company had approximately $4,899,000 and $1,035,000 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 there are no finance receivables past due or impaired and therefore has not recognized a loss allowance for expected credit losses on financing receivables as of June 30, 2023.

Financing receivable concentration

The Company has 35%, 14%, 10% and 10% of its financing receivables with four customers as of June 30, 2023, and 38%, 13%, 13% and 11% of its financing receivables with the same four customers as of December 31, 2022.

(Expressed in United States Dollars)

(9) Prepaid and other current assets

The following table presents prepaid and other current assets:

	June 30, 2023	December 31, 2022
Prepaid insurance	$ 44,790	$ 93,227
Prepaid software costs	26,250	50,000
Vendor receivable	-	3,333
Canada tax receivable	7,611	18,036
Other	14,167	32,200
	$ 92,818	$ 196,796

(10) Servicing and property equipment

The following table below presents the change in carrying value of the Company's servicing and property equipment for six months ended June 30, 2023:

	Computers	Machinery and equipment	Servicing equipment	Total
Cost:				
Balance at December 31, 2022	$ 23,742	$ 3,490	$ 64,825	$ 92,057
Balance at June 30, 2023	$ 23,742	$ 3,490	$ 64,825	$ 92,057
Accumulated Depreciation:				
Balance at December 31, 2022	$ (14,444)	$ (3,083)	$ (54,154)	$ (71,681)
Depreciation	(2,480)	(350)	(6,506)	(9,336)
Balance at June 30, 2023	$ (16,924)	$ (3,433)	$ (60,660)	$ (81,017)
Net book value:				
Balance at December 31, 2022	$ 9,298	$ 407	$ 10,671	$ 20,376
Balance at June 30, 2023	$ 6,818	$ 57	$ 4,165	$ 11,040

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

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

(Expressed in United States Dollars)

(11) Trade and other payables

The following table presents trade and other payables:

	June 30, 2023	December 31, 2022
Trade payables	$ 594,467	$ 2,453,664
Other payables	-	14,677
	$ 594,467	$ 2,468,341

Trade payables primarily comprise equipment purchases satisfying financing agreements with the Company's customers.

(12) Accrued expenses

The following table presents accrued expenses:

	June 30, 2023	December 31, 2022
Accrued servicing equipment purchases	$ 5,728,051	$ 6,007,434
Accrued interest	209,265	58,096
Accrued professional fees	39,676	105,456
Accrued compensation, commissions, benefits and related taxes	422,927	52,879
Accrued sales tax	54,521	55,680
Accrued other	-	41,206
Unearned revenue	5,318	48,886
	$ 6,459,758	$ 6,369,637

(Expressed in United States Dollars)

(13) Loans and borrowings

The following table presents loans and borrowings outstanding:

Description	Maturity date	Interest rate	June 30, 2023	December 31, 2022
Line of credits:				
Revolving credit facility	August, 2024	9.00%	$ 29,140,000	$ 24,442,955
Term loans:				
Syndication notes	April, 2024 - July, 2025	12.00%	-	3,619,287
Convertible debentures:				
Broker debentures	March, 2024	10.00%	218,869	218,869
Sub Receipt debentures	September, 2024	10.00%	4,059,242	4,059,242
Convertible notes	October, 2023	9.50%	44,785,281	44,340,765
			78,203,392	76,681,118
Less:				
Unamortized discounts, debt issuance costs, financing costs and prepaid offering costs [1]			(2,813,092)	(5,597,584)
			$ 75,390,300	$ 71,083,534
Non-current			$ 3,182,424	$ 4,759,733
Current			$ 72,207,876	$ 66,323,801

Note to the table:

(1) The carrying value of the broker debentures, and Sub Receipt debentures issued in 2019 were adjusted using a discount rate of 25% to reflect the prevailing borrowing rates associated with debt acquired by companies with a similar credit risk profile as the Company. The carrying value of the convertible notes issued in 2021 and 2022 are netted against discounts related to the recognition of derivative liabilities and cash issuance costs. The debt discounts are accreted over the life of the respective debt instruments using the effective interest method.

The following table below shows the change in carrying value of the Company's loans and borrowings for the six months ended June 30, 2023:

	Line of credits	Term loans	Convertible debentures	Debt discounts, issuance costs and deferred financing costs	Total
Balance at December 31, 2022	$ 24,442,955	$ 3,619,287	$ 48,618,876	$ (5,597,584) [1]	$ 71,083,534
Borrowings	13,100,000	-	-	-	13,100,000
Repayments	(8,402,955)	(3,619,287)	-	-	(12,022,242)
Issuance of additional convertible notes as payment for PIK Interest	-	-	444,516	-	444,516
Amortization and accretion of debt discounts, financing costs and debt issuance costs	-	-	-	2,784,492	2,784,492
Balance at June 30, 2023	$ 29,140,000	$ -	$ 49,063,392	$ (2,813,092)	$ 75,390,300

Note to the table:

(1) Represents (i) debt discounts on loan borrowing proceeds and convertible debt issuances, and debt issuance costs netted against the gross proceeds of the Sub Receipt debenture issuance in 2019, (ii) debt discounts on the convertible notes issuance in 2021 and 2022 (iii) debt issuance costs netted against the gross proceeds of the convertible notes and (iv) unamortized deferred financing costs

written off as the result of the payoff of a line of credit. All amounts are net of the amortization and accretion of debt discounts, financing costs and debt issuance costs.

Convertible debentures

In October 2021, the Company completed a private placement of unsecured convertible debenture notes ("convertible notes") in the aggregate principal amount of $43,500,000, of which $33,500,000 million was funded at closing with an additional $10,000,000 available on a delayed draw on the same terms until June 30, 2022. In June 2022, the Company extended the terms on the delayed draw until December 31, 2022, and in October 2022, the Company drew down on the additional $10,000,000 netting gross proceeds of $9,500,000. 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. Additionally, as part of the transaction, one purchaser was entitled to a seat on the Company's board of directors. The convertible notes are subject to a quarterly total leverage ratio financial covenant, which the Company was not in compliance with as of June 30, 2023. The Company has received a waiver for the noncompliance.

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

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

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

The Company also issued an aggregate of 21,750,000 share purchase warrants being one warrant for each US$2.00 principal amount of convertible notes (Note 14). The warrants to be received have an exercise price of a $0.45CAD ($0.33 - $0.36) and have a two to three-year term.

The principal amount of the convertible notes issued in October 2022 of $10,000,000 and October 2021 of $33,500,000 was estimated at fair values of $8,769,000 and $31,539,607 at issuance with the differences of $1,231,000 and $1,960,393 reflected as an embedded derivative liability for the conversion feature and offset against the convertible notes carrying value as a discount. The discounts will be amortized to interest expense over the life of the convertible notes under the effective interest rate method. Additionally, the Company incurred debt issuance costs, netted against the gross proceeds of the issuance, of $2,571,826 in connection with the issuance of the convertible notes. The debt issuance costs were recorded as a discount on the convertible notes carrying value and are being amortized to interest expense over the life of the convertible notes under the effective interest rate method.

In March and April 2019, the Company issued $294,000CAD ($218,869) of convertible debentures to investment advisors and brokers for services rendered in raising debt subscriptions ("broker debentures"). The broker debentures mature after 5 years and bear interest at a rate of 10% per annum payable in cash in equal quarterly installments. The broker debentures convert into common shares and warrants at a conversion price of $1.10CAD ($0.82) at the holders' option prior to maturity or upon a change of control. The warrants to be received have an exercise price of a $1.50CAD ($1.12) and have a five-year term. Upon a change in control, the Company is required to purchase the broker debentures at a price of 105% of the principal balance plus accrued, unpaid interest. The Company has accounted for the fair value of the convertible debt at issuance of $218,869 as debt issuance costs, within the condensed consolidated statements of financial position and is being amortized to interest expense over the term of the Sub Receipt debentures under the effective interest rate method within the condensed consolidated statements of loss and comprehensive loss. The debt discount of $160,499 is being amortized to interest expense over the term of the broker debentures under the effective interest rate method within the condensed consolidated statements of loss and comprehensive loss. As of September 11, 2019, with the completion of the reverse acquisition, the broker debentures were re-issued through the legal parent entity and the underlying functional currency change triggered a reclassification of the debenture liability to equity. The fair value of the debenture liability as at September 11, 2019 immediately prior to the reclassification was $145,989.

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

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

Line of credits

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. In December of 2022 the revolving credit facility was amended to increase the maximum borrowing base to $39,000,000. 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, which the Company was in compliance with as of June 30, 2023. The revolving credit facility is secured by substantially all of the assets of the Company. The Company incurred fees and financing costs of $333,588, which were recorded net of the revolving credit facility carrying value and are being amortized to interest expense over the life of the revolving credit facility under the effective interest rate method.

Term loans

In February 2021, the Company launched its syndication platform by way of entering into promissory note agreements (“syndication notes”) with third-party lenders totaling $5,765,000 with maturity dates ranging from April 2024 to July 2025. The syndication notes bear interest at rates between 10.25% and 12% per annum, payable monthly. Each syndication note is secured by the lease payment streams and the underlying equipment of certain finance leases the Company has entered into with customers. In June 2023, the Company repaid the remaining outstanding principal balances of the syndication notes.

(Expressed in United States Dollars)

Summary of financing expense, net

The following table below details financing expense, net, reflected within the condensed consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2023 and 2022, respectively:

	Three months ended March 31,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Financing expense:				
Convertible debentures	$ 1,163,106	$ 912,725	$ 2,320,311	$ 1,822,330
Term loans	87,454	135,782	191,002	282,082
Line of credits	665,788	35,260	1,221,333	108,698
	$ 1,916,348	$ 1,083,767	$ 3,732,646	$ 2,213,110

Embedded derivative liabilities

The conversion feature of the convertible notes was considered an embedded derivative liability as the conversion price is not fixed. The Company performed a Binomial Lattice Model analysis that probability weighted various expected conversion prices, resulting in fair values at issuance of $1,692,050CAD ($1,231,000) for the October 2022 issuance, and $2,420,179CAD ($1,960,393) for the October 2021 issuance. The embedded derivative liabilities are reflected as a short-term liability within the condensed consolidated statements of financial position.

At June 30, 2023, the embedded derivative liabilities were re-valued at $nilCAD ($nil) with changes in fair value of $63,776CAD ($(47,000)) and $(702,897)CAD ($(518,000)) reflected in the condensed consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2023, respectively. The reduction in value of the embedded derivative liability to $nil as of June 30, 2023, is a result of the passage of time, increase in the risk-free interest rate and the Company's stock price. A change in fair value of $2,614,912CAD ($1,980,844) and $3,446,398CAD ($2,657,278) was reflected in the condensed consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2022, respectively.

The fair value of the embedded derivative liabilities was determined using a Binomial Lattice Model with the following assumptions as of June 30, 2023:

Expected dividend yield		-
Expected volatility		140.9%
Risk-free interest rate		5.2%
Expected term		0.6 years
Conversion / share price	$	Various

(Expressed in United States Dollars)

(14) Warrants

The following table summarizes warrant activity for the six months ended June 30, 2023:

	Number of warrants	Weighted average exercise price per share
Outstanding at December 31, 2022	71,638,459	$ 0.45
Expired	(43,068,382)	$ 0.40
Outstanding at June 30, 2023	28,570,077	$ 0.53

Warrant issuances

In October 2022 and October 2021, in connection with the issuance of additional unsecured convertible notes related to the Company's October 2021 private placement of unsecured convertible notes (Note 13), the Company issued 5,000,000 and 16,750,000 of common share warrants, respectively. The warrants have a term of two years and an exercise price of $0.45CAD ($0.33) per share for the October 2022 issuance and a term of three years and an exercise price of $0.45CAD ($0.36) per share for the October 2021 issuance. The warrants had a value of $0.07CAD ($0.05) and $0.15CAD ($0.13) on the date of issue based on the allocation of the total carrying value of the convertible notes using the Black-Scholes option pricing model for the October 2022 and 2021 issuances, respectively. The Company recorded $220,049CAD ($161,056) and $2,395,079CAD ($1,966,775) as derivative liabilities in October 2022 and 2021, respectively, as the exercise price is not fixed with an offset reflected as a discount to carrying value of the convertible notes within the condensed consolidated statements of financial position.

At June 30, 2023, the warrant derivative liabilities were re-valued using the Black-Scholes option pricing model at $87,124CAD ($65,859), with the change in fair value of $(253,967)CAD ($(186,779)) and $(381,348)CAD ($(280,348)) reflected in the condensed consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2023, respectively. A change in fair value of $(720,318)CAD ($(595,911)) and $(1,148,495)CAD ($(943,468)) was reflected in the condensed consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2022, respectively.

The grant date fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions as of June 30, 2023:

Expected dividend yield		-
Expected volatility		142.2%
Risk-free interest rate		4.2%
Expected term		1.3 years
Conversion / share price	$	0.33 - 0.36

(Expressed in United States Dollars)

The following table presents warrants outstanding at June 30, 2023:

Expiration date	Term (years)	Number of warrants outstanding	Number of warrants exercisable	Exercise price US $	Exercise price CAD $
Common share warrants:					
12-Apr-24	5	500,000	500,000	$ 0.82	$ 1.10
11-Sep-24	5	374,308	374,308	$ 0.82	$ 1.10
11-Sep-24	5	5,452,134	5,452,134	$ 1.12	$ 1.50
11-Sep-24	5	363,636	363,636	$ 1.13	$ 1.50
11-Sep-24	5	50,000	50,000	$ 1.14	$ 1.50
11-Sep-24	5	22,727	22,727	$ 1.16	$ 1.50
11-Sep-24	5	25,454	25,454	$ 1.05	$ 1.50
11-Sep-24	5	31,818	31,818	$ 1.20	$ 1.50
28-Oct-24	3	16,750,000	16,750,000	$ 0.36	$ 0.45
28-Oct-24	2	5,000,000	5,000,000	$ 0.33	$ 0.45
Total		28,570,077	28,570,077		

The weighted average remaining term for outstanding warrants is 1.3 years, and the weighted average exercise price is $0.69CAD ($0.53) as at June 30, 2023.

(15) Share capital

As at June 30, 2023, and December 31, 2022, the Company has an unlimited number of authorized common and proportionate voting common shares with no par value. Proportionate voting common shares can be converted into common shares at the option of the holders at a ratio of 1,000 to 1 upon approval of the Company's Resulting Issuer Board and satisfaction of the condition that greater than 40% of common and proportionate shareholders are US residents. On all voting matters, common shareholders are entitled to one vote and proportionate voting shareholders are entitled to 1,000 votes per proportionate voting share. Generally, in all other matters the proportionate voting shareholders have the same rights as the common shareholders and will be treated as if they were one class of shares. At June 30, 2023 and December 31, 2022, the Company had 77,728,044 and 75,526,443, respectively, issued and outstanding common shares and 26,156 and 28,358, respectively, issued and outstanding proportionate voting common shares.

Share conversion

In January 2023, 2,202 of proportionate common shares were converted into 2,201,601 common shares.

(Expressed in United States Dollars)

(16) Income taxes

The Company recognized a deferred income tax provision of $nil for both the three and six months ended June 30, 2023, and 2022.

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate was 29.0% and 26.5%, for the three and six months ended June 30, 2023, and 2022, respectively.

(17) Share-based compensation

In September 2019, the Company established the Omnibus Incentive Plan ("Incentive Plan") which replaced and governs all options under the Company's previously issued 2018 Stock Option Plan. The Omnibus plan was revised in August 2021 and 2022. The Incentive Plan provides for the granting of up 15% of outstanding shares and is not to exceed a maximum of 75,000,000 share-based equity incentive compensation awards such as stock options and restricted stock awards to directors, officers, employees, contractors, and advisors, as determined by the Company's board of directors.

In February 2023, the Company granted a total of 6,187,389 common share options and 28,337 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.

In March 2023 the Company cancelled 25,023,888 common share options of which 19,700,737 were options of directors, officers and a related party (Archytas).

The per-share grant date weighted average fair value of stock options was estimated at $0.04 on the date of grant for the six months ended June 30, 2023, using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield		-
Expected volatility		144.3%
Risk-free interest rate		3.5%
Expected term		6.0 years
Share price	$	0.05

(Expressed in United States Dollars)

The following table summarizes stock option activity under the Option Plan for the six months ended June 30, 2023:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at December 31, 2022	33,149,083	$ 0.17	3.7
Granted	6,215,726	$ 0.05	
Cancelled / forfeited	(25,023,888)	$ 0.09	
Outstanding at June 30, 2023	14,340,921	$ 0.14	5.8
Exercisable and vested at June 30, 2023	7,109,830	$ 0.19	4.2

As of June 30, 2023, there was approximately $972,000 of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 1.6 years.

The Company recorded compensation expense for stock options of $208,880 and $47,085 for the three months ended June 30, 2023 and 2022, respectively, and $1,511,867 and $511,923 for six months ended June 30, 2023 and 2022, respectively, within the condensed consolidated statements of loss and comprehensive loss.

The following table summarizes the stock options outstanding as at June 30, 2023:

Expiry Date	Exercise Price US $	Exercise Price CAD $	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested
July 2028	$ 0.60	$ 0.78	5.05	339,194	339,194
November 2024	$ 0.26	$ 0.34	1.41	1,130,000	1,130,000
April 2025	$ 0.16	$ 0.22	1.81	834,196	834,196
December 2025	$ 0.18	$ 0.23	2.46	16,565	16,565
March 2026	$ 0.26	$ 0.33	2.74	1,530,180	1,180,180
April 2026	$ 0.27	$ 0.33	2.83	100,000	100,000
September 2026	$ 0.16	$ 0.20	3.20	1,440,000	720,000
January 2027	$ 0.14	$ 0.18	3.58	2,236,334	1,118,167
October 2027	$ 0.09	$ 0.13	4.29	498,726	124,682
February 2033	$ 0.05	$ 0.07	9.60	6,215,726	1,546,846
	$ 0.14	$ 0.18	5.84	14,340,921	7,109,830

(Expressed in United States Dollars)

(18) Retirement plan

The Company sponsors a defined contribution 401(k) retirement plan (“401(k) Plan”) that allows eligible employees to contribute a portion of their compensation through payroll deductions. The retirement plan is a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, participating U.S. employees may defer a portion of their pre- tax earnings, up to the U.S. Internal Revenue Service annual contribution limit ($20,500 for calendar year 2022). Participants are eligible to receive a matching contribution from the Company of 100% of the first 4% of contributions. The Company contributed $17,798 and $13,090 for the three months ended June 30, 2023, and 2022, respectively, and $28,156 and $13,090 for six months ended June 30, 2023, and 2022, respectively.

(19) Related party transactions

The following presents balances and transactions between the Company and other related parties as of June 30, 2023, and for the three and six months ended June 30, 2023, and 2022, respectively.

Key management personnel

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

	Three months ended March 31,		Six months ended June 30,	
	2023	2022	2023	2022
Salaries, contractor costs, management fees and benefits	$ 383,333	$ 153,724	$ 682,083	$ 307,447
Incentive compensation (non-cash)	107,272	1,916	900,725	232,199
	$ 490,605	$ 155,640	$ 1,582,808	$ 539,646

See also Note 17.

(Expressed in United States Dollars)

Related party transactions and amounts due to related parties

The following table presents expenses incurred and paid on behalf of the Company from related parties for the six months ended June 30, 2023, and 2022:

	Archytas [1]
Amounts due to related parties at January 1, 2022	$ -
Operating expenses	9,614
Less payments to related parties	(9,614)
Amounts due to related parties at June 30, 2022	$ -
Amounts due to related parties at January 1, 2023	$ 5,814
Operating expenses	11,676
Less payments to related parties	(17,490)
Amounts due to related parties at June 30, 2023	$ -

Note to table:
(1) Archytas is a shareholder of the Company, having been involved in the initial formation of XSI.

Related party loans and borrowings

In August and November 2021, the Company entered into syndication term loans (Note 13) with certain officers and directors of the Company with borrowings totaling $550,000. In June 2023, the Company repaid the remaining outstanding borrowings resulting in a balance outstanding of $nil as of June 30, 2023. The Company had a balance outstanding of $371,659 as of December 31, 2022.

(20) Financial instrument risk exposures

Financial risk management

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

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash, 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 June 30, 2023. See also Note 8.

(Expressed in United States Dollars)

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 June 30, 2023, the Company had current assets of $26,562,568 and current liabilities of $79,327,960. All current liabilities are classified as due within one year.

At June 30, 2023, 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	$ 594,467	$ -	$ -	$ 594,467
Accrued expenses	6,459,758	-	-	6,459,758
Loans and borrowings (1)	73,925,281	218,869	4,059,242	78,203,392
Balance at June 30, 2023	$ 80,979,506	$ 218,869	$ 4,059,242	$ 85,257,617

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 for its Canada subsidiary and U.S. dollar for U.S. subsidiaries. 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:

		June 30, 2023		**December 31, 2022**
Tax receivable	$	7,611	$	18,036
Trade payable	$	9,649	$	11,926
Loans and borrowings (1)	$	5,633,000	$	5,633,000

Note to the table:
(1) Represents broker debentures and sub receipt convertible debentures (Note 13).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's line of credit is subject to fluctuations in interest rates and therefore exposes the Company to interest rate fair value risk. The remainder of the Company's financial debt and lease receivables have fixed rates of interest resulting in limited interest rate fair value risk for the Company. 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 less than $100 in the condensed consolidated statements of loss and comprehensive loss for the six months ended June 30, 2023.

(21) Business segments

The Company has one reportable business segment, which is engaged in the business of providing leasing solutions to owners/operators of cannabis and hemp companies including cultivators, oil processors, manufacturers, and testing laboratories, among others.

(22) Subsequent events

Lease Originations

In the months of July through August 2023, the Company completed 14 lease transactions with publicly traded and private cannabis companies including Ascend Wellness, Ayr Wellness, Curaleaf, Jushi and PharmaCann, amongst others. During this period, the Company originated over $9,485,000 of leases.