XS Financial Inc.

Condensed Consolidated Financial Statements

For the three and nine months ended September 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 nine months ended September 30, 2023 and 2022
(Expressed in United States dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2023**	**2022**	**2023**	**2022**
Revenue	5	$ 2,939,216	$ 2,080,061	$ 8,772,599	$ 5,026,465
Operating expenses					
Administrative expenses	6	1,051,700	1,845,267	4,736,784	3,636,397
Sales and marketing expenses	6	87,566	98,901	277,395	265,559
Gain from operations		1,799,950	135,893	3,758,420	1,124,509
Financing expense, net	13	1,860,045	1,118,696	5,592,691	3,331,806
Accretion expense	13	952,919	881,092	3,737,411	2,520,916
Unrealized loss in fair value change of investments	7	114	10,186	965	78,521
Change in fair value of derivative liabilities	13,14	710,832	(2,377,323)	(87,516)	(663,513)
Other expense	6	1,263,773	2,920,951	1,167,656	3,589,885
Net loss		$ (2,987,733)	$ (2,417,709)	$ (6,652,787)	$ (7,733,106)
Other comprehensive loss					
Items that will subsequently be reclassified to operations:					
Unrealized gain on foreign currency translation		262,563	2,552,271	242,280	3,218,886
Comprehensive loss		$ (2,725,170)	$ 134,562	$ (6,410,507)	$ (4,514,220)
Loss per share - basic and diluted		$ (0.03)	$ (0.02)	$ (0.06)	$ (0.07)
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 September 30, 2023 and December 31, 2022
(Expressed in United States dollars)

	Note	September 30, 2023	(Audited) December 31, 2022
Assets			
Current assets			
Cash		$ 87,358	$ 1,040,932
Investments	7	316	1,281
Financing receivables, short-term	8	28,148,689	22,763,720
Prepaid and other current assets	9	48,476	196,796
Total current assets		28,284,839	24,002,729
Non-current assets			
Servicing and property equipment	10	6,785	20,376
Financing receivables, long-term	8	61,686,671	64,328,225
Total non-current assets		61,693,456	64,348,601
Total assets		$ 89,978,295	$ 88,351,330
Shareholders' equity and liabilities			
Current liabilities			
Loans and borrowings, short-term	13	$ 79,872,984	$ 66,323,801
Trade and other payables	11	1,126,667	2,468,341
Accrued expenses	12	5,323,075	6,369,637
Warrant derivative liabilities	14	75,286	346,207
Embedded derivative liabilities	13	697,633	518,000
Total current liabilities		87,095,645	76,025,986
Non-current liabilities			
Loans and borrowings, long-term	13	-	4,759,733
Total non-current liabilities		-	4,759,733
Total liabilities		87,095,645	80,785,719
Shareholders' equity			
Share capital	15	21,158,842	21,158,842
Reserves		11,973,430	10,245,884
Conversion feature - debentures		930,697	930,697
Accumulated other comprehensive income		3,403,320	3,161,040
Accumulated deficit		(34,583,639)	(27,930,852)
Total shareholders' equity		2,882,650	7,565,611
Total shareholders' equity and liabilities		$ 89,978,295	$ 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 nine months ended September 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	-	-	-	1,674,689	-	-	-	1,674,689
Net loss and comprehensive loss		-	-	-	-	-	3,218,886	(7,733,106)	(4,514,220)
Balance at September 30, 2022		75,526,443	28,358	$ 21,158,842	$ 9,954,498	$ 930,697	$ 3,892,396	$ (29,358,470)	$ 6,577,963
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	-	-	-	1,727,546	-	-	-	1,727,546
Net loss and comprehensive loss		-	-		-	-	242,280	(6,652,787)	(6,410,507)
Balance at September 30, 2023		77,728,044	26,156	$ 21,158,842	$ 11,973,430	$ 930,697	$ 3,403,320	$ (34,583,639)	$ 2,882,650

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 nine months ended September 30, 2023 and 2022
(Expressed in United States dollars)

		Nine months ended September 30,	
	Note	**2023**	**2022**
Cash flows from operating activities			
Net loss for the year		$ (6,652,787)	$ (7,733,106)
Adjustments to reconcile loss to net cash flows:			
Depreciation and amortization	10	13,591	12,293
Unrealized loss on investments	7	965	78,521
Change in fair value of derivative liabilities	13,14	(87,516)	(663,513)
Gain on debt extinguishment	13	(215,854)	134,350
Gain on lease termination	5,8	(118,555)	(5,170)
Loss on debt modification	13	1,265,004	-
Share-based incentive compensation expense	17	1,727,546	1,674,689
Interest expense paid in kind	13	675,446	506,784
Accretion expense	13	3,737,411	2,520,916
		345,251	(3,474,236)
Change in working capital items:			
Financing receivables	8	(2,624,860)	(36,752,735)
Prepaid and other current assets	9	148,320	41,113
Trade and other payables	11	(1,341,674)	1,263,080
Accrued expenses	12	(1,046,560)	2,471,402
Net cash flows (used in) operating activities		(4,519,523)	(36,451,376)
Cash flows from investing activities			
Purchases of servicing and property equipment	10	-	(7,652)
Net cash flows (used in) investing activities		-	(7,652)
Cash flows from financing activities			
Proceeds from loans and borrowings	13	25,150,000	24,592,955
Repayment of loans and borrowings	13	(19,147,242)	(7,908,723)
Repayment of convertible notes	13	(2,326,468)	-
Payment of debt financing and issuance costs	12	(352,621)	(253,185)
Net cash flows provided by financing activities		3,323,669	16,431,047
Effect of exchange rate changes on cash		242,280	3,218,886
Net (decrease) in cash		(953,574)	(16,809,095)
Cash at beginning of the period		1,040,932	17,119,026
Cash at end of the period		$ 87,358	$ 309,931
Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 5,394,303	$ 2,818,772

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 condensed consolidated financial statements have been approved by the Company's board of directors and are authorized for issuance as of November 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 nine months ended September 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 September 30, 2023:				
Assets:				
Investments (Note 7)	$ 316	$ -	$ -	$ 316
Liabilities:				
Warrant derivative liabilities (Note 14)	$ -	$ -	$ 75,286	$ 75,286
Embedded derivative liabilities (Note 13)	-	-	697,633	697,633
	$ -	$ -	$ 772,919	$ 772,919
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 nine months ended September 30, 2023:

	Warrant derivative liabilities	Embedded derivative liabilities	Total
Balance at December 31, 2022	$ 346,207	$ 518,000	$ 864,207
Warrants cancelled as a result of convertible notes repurchase (Note 13)	(3,772)	-	(3,772)
Net change in unrealized fair value	(267,149)	179,633	(87,516)
Balance at September 30, 2023	$ 75,286	$ 697,633	$ 772,919

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 condensed 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 September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Revenue source:				
Financing income on financing leases (Note 8)	$ 2,933,809	$ 2,080,061	$ 8,605,281	$ 4,981,636
Other revenue	5,407	-	167,318	44,829
	$ 2,939,216	$ 2,080,061	$ 8,772,599	$ 5,026,465

<u>*Revenue concentration*</u>

All of the Company's revenue is derived from customers in the United States with two and three customers representing 30% and 19% and 43%, 19% and 14% of the Company's recognized revenue for the three months ended September 30, 2023, and 2022, respectively. The same customers represented 30%, 16% and 12% and 39%, 26% and 17% of the Company's recognized revenue for the nine months ended September 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 by nature:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Administrative expenses:				
Compensation and benefits	$ 598,866	$ 284,562	$ 1,954,453	$ 847,275
Share-based incentive compensation	215,679	1,162,766	1,727,546	1,674,689
Contractors and outside services	30,789	103,772	162,649	264,604
Professional fees	56,192	155,904	325,477	412,624
Travel, meals and entertainment	3,881	7,877	43,861	41,081
Insurance	30,659	45,850	82,641	163,553
Depreciation expense	4,255	4,108	13,591	12,293
Other expenses	111,379	80,428	426,566	220,278
	$ 1,051,700	$ 1,845,267	4,736,784	$ 3,636,397
Sales and marketing expenses:				
Compensation and benefits	$ 83,933	$ 90,688	$ 259,132	$ 233,922
Advertising and marketing	3,632	8,113	14,598	31,432
Other expenses	1	100	3,665	205
	$ 87,566	$ 98,901	$ 277,395	$ 265,559
Other expense:				
Loss (gain) on foreign currency translation	$ 264,377	$ 2,556,010	$ 245,280	$ 3,224,944
Loss (gain) on debt extinguishment	(215,854)	370,111	(215,854)	370,111
Loss on debt modification	1,265,004	-	1,265,004	-
Gain on lease termination	(49,754)	-	(118,554)	-
Other income	-	(5,170)	(8,220)	(5,170)
	$ 1,263,773	$ 2,920,951	$ 1,167,656	$ 3,589,885

(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 September 30, 2023, the remaining investment in Greenlane was re-valued at $316. The Company recorded an unrealized change in fair value, resulting in a loss of $114 and $10,186 in the condensed consolidated statements of loss and comprehensive loss for the three months ended September 30, 2023, and 2022, respectively, and a loss of $965 and $78,521 in the condensed consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2023, and 2022, respectively.

(Expressed in United States Dollars)

(8) Financing receivables

The following table presents financing receivables:

	September 30, 2023	December 31, 2022
Financing receivables, short-term	$ 28,148,689	$ 22,763,720
Financing receivables, long-term	61,686,671	64,328,225
	$ 89,835,360	$ 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 September 30, 2023:

2023	$ 9,720,873
2024	37,195,594
2025	28,082,516
2026	20,765,466
2027	8,540,113
Thereafter	8,880,959
Total undiscounted lease payments receivable	113,185,521
Unearned finance income	(23,350,161)
Net investment in lease	$ 89,835,360

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 September 30, 2023, the Company had approximately $3,565,000 and $886,000 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 has not recognized a loss allowance for expected credit losses on financing receivables as of September 30, 2023.

Financing receivable concentration

The Company has 31%, and 21% of its financing receivables with two customers as of September 30, 2023, and 38%, 13%, 13% and 11% of its financing receivables with 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:

	September 30, 2023	December 31, 2022
Prepaid insurance	$ 20,572	$ 93,227
Prepaid software costs	13,125	50,000
Vendor receivable	-	3,333
Canada tax receivable	9,362	18,036
Other	5,417	32,200
	$ 48,476	$ 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 nine months ended September 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 September 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	(3,424)	(407)	(9,760)	(13,591)
Balance at September 30, 2023	$ (17,868)	$ (3,490)	$ (63,914)	$ (85,272)
Net book value:				
Balance at December 31, 2022	$ 9,298	$ 407	$ 10,671	$ 20,376
Balance at September 30, 2023	$ 5,874	$ -	$ 911	$ 6,785

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:

	September 30, 2023	December 31, 2022
Trade payables	$ 1,126,667	$ 2,453,664
Other payables	-	14,677
	$ 1,126,667	$ 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:

	September 30, 2023	December 31, 2022
Accrued servicing equipment purchases	$ 4,366,745	$ 6,007,434
Accrued interest	267,793	58,096
Accrued professional fees	-	105,456
Accrued compensation, commissions, benefits and related taxes	627,984	52,879
Accrued sales tax	55,235	55,680
Accrued other	-	41,206
Unearned revenue	5,318	48,886
	$ 5,323,075	$ 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	September 30, 2023	December 31, 2022
Line of credits:				
Revolving credit facility	August, 2024	9.00%	$ 34,065,000	$ 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	June, 2024	9.50%	42,431,252	44,340,765
			80,774,363	76,681,118
Less:				
Unamortized discounts, debt issuance costs, financing costs and prepaid offering costs (1)			(901,379)	(5,597,584)
			$ 79,872,984	$ 71,083,534
Non-current			$ -	$ 4,759,733
Current			$ 79,872,984	$ 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 nine months ended September 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	25,150,000	-	-	-	25,150,000
Repayments	(15,527,955)	(3,619,287)	(2,584,959)	46,411 (2)	(21,685,790)
Issuance of additional convertible notes as payment for PIK Interest	-	-	675,446	-	675,446
Loss on debt modification	-	-	-	1,265,004 (3)	1,265,004
Deferred financing costs	-	-	-	(84,828) (4)	(84,828)
Debt amendment costs	-	-	-	(267,793) (5)	(267,793)
Amortization and accretion of debt discounts, financing costs and debt issuance costs	-	-	-	3,737,411	3,737,411
Balance at September 30, 2023	$ 34,065,000	$ -	$ 46,709,363	$ (901,379)	$ 79,872,984

Notes 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.

(2) Represents debt discounts and issuance costs written off related to the repayment of convertible notes.

(3) Represents the loss on debt modification related to the August 2023 amendment of convertible notes further discussed below.

(4) Represents deferred financing costs related to the September 2023 amendment of the Company's revolving credit facility further discussed below.

(5) Represents debt issuance costs related to the August 2023 amendment of convertible notes further discussed below.

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 September 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. In August 20023, the Company amended certain terms of the convertible notes including extending the maturity date of the convertible notes from October 2023 to either (i) December 31, 2024 (the "December Maturity Date") if the Company secures an additional Senior Debt Commitment on or prior to December 31, 2023; or (ii) otherwise, June 30, 2024. The Company has the option of extending the December Maturity Date for an additional one-year period to December 31, 2025, by providing written notice to the convertible note holders and making a cash payment equal to 1% of the aggregate principal amount of the convertible notes outstanding at the date of such 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. As part of the August 2023 amendment the holders of the convertible notes have agreed to forebear taking any action for noncompliance over the remaining terms of the agreement.

The August 2023 amendment redefined the conversion price to state that the principal and interest outstanding under the convertible notes may be converted by the holders into subordinate voting shares of the Company at a conversion price equal to the lesser of: (a) CAD$0.12 per share; or (b) 80% of a Qualified Offering price (subject to adjustment to the extent that the holders have not achieved an internal rate of return on their investment in the Notes equal to or greater than 12% upon conversion).

Interest on the convertible notes accrue at the rate of (i) 9.50% per annum. The August 2023 amendment changed the interest rate components from 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") to 7.00% shall be payable in cash 2.50% shall be payable as PIK interest. 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.

The August 2023 amendment also redefined a change of control to state in the event of a change in control the Company shall be required to redeem the convertible notes at a repurchase price (I) equal to the greater of (a) 101% of the principal amount thereof, plus accrued and unpaid interest; and (b) 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 (II) plus to the extent that the convertible note holders have not achieved an IRR on their investment in the convertible notes equal to or greater than 12% upon conversion, such additional shares of Common Stock (at a deemed price equal to the Transaction Price) or cash, at the option of the Company, that would result in the achievement of an IRR of 12% on their investment at the Change of Control Effective Date.

In conjunction with the convertible notes issuance 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.

The August 2023 amendment was determined to be a non-substantial debt modification resulting in the Company recording a loss on debt modification of $1,265,004 within the other expense line item in the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2023. The Company incurred debt issuance costs of $267,793 related to the amendment. The debt modification loss, debt issuance costs and any unamortized discounts and issuance costs associated with the original issuance are being amortized to interest expense over the remaining life of the convertible notes under the effective interest rate method.

Additionally in August 2023, the Company entered into a repayment and release agreement with a convertible note holder whereby the Company repaid $2,584,960 of original principal and accrued PIK interest at a discount of $2,326,468 and cancelled 1,250,000 of warrants (Note 14). In conjunction with the repayment the Company wrote off $42,638 of unamortized discounts, issuance costs and warrant derivative liabilities associated with the repurchased convertible note. As a result of these transactions the Company recorded a gain on debt extinguishment of $215,854 within the other expense line item in the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2023.

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 and September of 2023, the revolving credit facility was amended to increase the maximum borrowing base to $39,000,000 and $54,000,000, respectively. 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 September 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 $418,416, 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.

In September 2021, the Company entered into a secured term loan credit facility ("credit facility"), with a maximum borrowing base of $15,000,000 and required monthly interest payments with all unpaid principal and interest due in September 2023, which could be extended automatically for successive 12-month periods upon mutual agreement by both the Company and the lender. The credit facility bore interest at an annual rate equal to the Wall Street Journal Prime plus 8.5% with a prime rate floor of no less than 3.25%. The credit facility was subject to monthly financial covenants such as maintaining a minimum tangible net worth, EBITDA and default rates such as defined in the agreement. Additionally, the Company was subject to borrowing requirements whereby the minimum outstanding balance of the credit facility must equal or exceed $2,500,000 90 days after the effective date of the credit facility agreement, and $7,500,000 one year after the effective date of the credit facility agreement and thereafter during the remaining term or the credit facility agreement. The Company incurred fees and financing costs of $231,029, which were recorded net of the credit facility carrying value and were being amortized to interest expense over the life of the credit facility under the effective interest rate method. In August 2022, in conjunction with the Company entering its revolving credit facility the Company repaid and terminated the credit facility arrangement. The remaining unamortized financing costs of $134,350 were written off, and the Company incurred early termination fees of $224,754 related to the termination of the credit facility arrangement. The Company recorded a total of $359,105 as a loss on debt extinguishment within the other expense line item in the condensed consolidated statements of loss and comprehensive income (loss) for the three and nine months ended September 30, 2022.

In November 2020, the Company entered into a senior secured revolving credit facility ("line of credit"), with a maximum borrowing base of $2,000,000, which was increased to $4,000,000 in July 2021. The line of credit required monthly interest payments with all principal and unpaid interest payments due in November 2022. The line of credit bore interest at an annual rate equal to the greater of (i) 8.0% per annum or (ii) the Wall Street Journal Prime plus 4.0% and may be prepaid with no penalty at any time. The line of credit was subject to monthly financial covenants such as maintaining a maximum total leverage ratio and tangible net worth, such as defined in the agreement. The line of credit was secured by substantially all of the assets of the Company. In August 2022, in conjunction with the Company entering its revolving credit facility the Company repaid and terminated the line of credit arrangement. The Company incurred an unused facility fee of $11,006 related to the termination of the line of credit arrangement, which was reflected as a loss on debt extinguishment within the other expense line item in the condensed consolidated statements of loss and comprehensive income (loss) for the three and nine months ended September 30, 2022.

(Expressed in United States Dollars)

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.

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 nine months ended September 30, 2023 and 2022, respectively:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Financing expense:				
Convertible debentures	$ 1,096,082	$ 914,263	$ 3,416,393	$ 2,736,593
Term loans	-	124,817	191,002	406,899
Line of credits	763,963	79,616	1,985,296	188,314
	$ 1,860,045	$ 1,118,696	$ 5,592,691	$ 3,331,806

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 September 30, 2023, the embedded derivative liabilities were re-valued at $948,118CAD ($697,633) with changes in fair value of $948,118CAD $(697,633) and $245,221CAD $(179,633) reflected in the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2023, respectively. The reduction in value of the embedded derivative liability to $nil as of September 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 $(2,671,559)CAD ($(2,075,000)) and $(774,839)CAD $(582,278) was reflected in the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2022, respectively.

(Expressed in United States Dollars)

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

Expected dividend yield		-
Expected volatility		45.0%
Risk-free interest rate		5.5%
Expected term		0.9 years
Conversion / share price	$	Various

(14) Warrants

The following table summarizes warrant activity for the nine months ended September 30, 2023:

	Number of warrants		Weighted average exercise price per share
Outstanding at December 31, 2022	71,638,459	$	0.45
Expired and cancelled	(44,318,382)	$	0.41
Outstanding at September 30, 2023	27,320,077	$	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.

In August 2023, in connection with the repurchase of convertible notes (Note 13) the Company cancelled 1,250,000 of warrants originally issued in October 2021.

At September 30, 2023, the warrant derivative liabilities were re-valued using the Black-Scholes option pricing model at $102,253CAD ($75,286), with the change in fair value of $20,112CAD $(13,199) and $(361,236)CAD ($(267,149)) reflected in the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2023, respectively. A change in fair value of $(332,535)CAD ($(302,323)) and $(1,481,030)CAD

(Expressed in United States Dollars)

($(1,245,791)) was reflected in the condensed consolidated statements of loss and comprehensive loss for the three and nine months ended September 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 September 30, 2023:

Expected dividend yield		-
Expected volatility		146.8%
Risk-free interest rate		4.6%
Expected term		1.1 years
Conversion / share price	$	0.33 - 0.36

The following table presents warrants outstanding at September 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	15,500,000	15,500,000	$ 0.36	$ 0.45
28-Oct-24	2	5,000,000	5,000,000	$ 0.33	$ 0.45
Total		27,320,077	27,320,077		

The weighted average remaining term for outstanding warrants is 1.0 years, and the weighted average exercise price is $0.70CAD ($0.53) as at September 30, 2023.

(15) Share capital

As at September 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 September 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.

(Expressed in United States Dollars)

Share conversion

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

(16) Income taxes

The Company recognized a deferred income tax provision of $nil for both the three and nine months ended September 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 nine months ended September 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, April and September 2023 the Company cancelled 25,599,011 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 nine months ended September 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 nine months ended September 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	(25,599,011)	$ 0.16	
Outstanding at September 30, 2023	13,765,798	$ 0.14	5.6
Exercisable and vested at September 30, 2023	7,153,516	$ 0.19	4.0

As of September 30, 2023, there was approximately $756,000 of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 1.4 years.

The Company recorded compensation expense for stock options of $215,679 and $1,162,766 for the three months ended September 30, 2023 and 2022, respectively, and $1,727,546 and $1,674,689 for nine months ended September 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 September 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	4.80	339,194	339,194
November 2024	$ 0.26	$ 0.34	1.15	1,130,000	1,130,000
April 2025	$ 0.16	$ 0.22	1.56	780,239	780,239
December 2025	$ 0.18	$ 0.23	2.21	16,565	16,565
March 2026	$ 0.26	$ 0.33	2.49	1,530,180	1,180,180
April 2026	$ 0.27	$ 0.33	2.57	100,000	100,000
September 2026	$ 0.16	$ 0.20	2.94	1,260,000	945,000
January 2027	$ 0.14	$ 0.18	3.33	2,039,733	1,019,867
October 2027	$ 0.09	$ 0.13	4.04	498,726	124,682
February 2033	$ 0.05	$ 0.07	9.35	6,071,161	1,517,789
	$ 0.14	$ 0.18	5.63	13,765,798	7,153,516

(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 $11,625 and $16,454 for the three months ended September 30, 2023, and 2022, respectively, and $39,781 and $29,544 for nine months ended September 30, 2023, and 2022, respectively.

(19) Related party transactions

The following presents balances and transactions between the Company and other related parties as of September 30, 2023, and for the three and nine months ended September 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 September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Salaries, contractor costs, management fees and benefits	$ 352,500	$ 174,283	$ 1,034,583	$ 481,730
Incentive compensation (non-cash)	114,225	542,565	1,014,950	774,764
	$ 466,725	$ 716,848	$ 2,049,533	$ 1,256,494

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 nine months ended September 30, 2023, and 2022:

	Archytas (1)
Amounts due to related parties at January 1, 2022	$ -
Operating expenses	15,428
Less payments to related parties	(9,614)
Amounts due to related parties at September 30, 2022	$ 5,814
Amounts due to related parties at January 1, 2023	$ 5,814
Operating expenses	18,017
Less payments to related parties	(17,490)
Amounts due to related parties at September 30, 2023	$ 6,341

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 September 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 September 30, 2023. See also Note 8.

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

Liquidity risk

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

At September 30, 2023, the Company had current assets of $27,284,839 and current liabilities of $87,095,645. All current liabilities are classified as due within one year.

At September 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	$ 1,126,667	$ -	$ -	$ 1,126,667
Accrued expenses	5,323,075	-	-	5,323,075
Loans and borrowings (1)	34,283,869	46,490,494	-	80,774,363
Balance at September 30, 2023	$ 40,733,611	$ 46,490,494	$ -	$ 87,224,105

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:

	September 30, 2023	December 31, 2022
Tax receivable	$ 9,362	$ 18,036
Trade payable	$ 25,281	$ 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 nine months ended September 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

<u>Lease originations</u>

In the months of October and November 2023, the Company completed 4 lease transactions with publicly traded and private cannabis companies including Ayr Wellness, and Aeriz. During this period, the Company originated over approximately $800,000 of leases.

<u>Convertible debentures</u>

In October 2023, the Company entered into repayment and release agreements with a convertible note holder and a sub receipt debenture holder whereby the Company repaid approximately $3,100,000 of original principal and accrued PIK interest convertible notes and approximately $106,000 of sub receipt debentures at discounts of approximately $2,900,000 and $85,000, respectively. The Company also cancelled 1,500,000 of warrants associated with the convertible notes' repayment.