XS Financial Inc.

Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2024 and 2023

(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, 2024 and 2023
(Expressed in United States dollars)

		Three months ended June 30,		Six months ended June 30,	
	Note	**2024**	**2023**	**2024**	**2023**
Revenue	7	$ 2,390,698	$ 2,990,414	$ 5,076,922	$ 5,833,383
Operating expenses					
Administrative expenses	8	974,571	1,407,133	1,857,765	3,685,084
Sales and marketing expenses	8	28,602	87,445	58,865	189,829
Income from operations		1,387,525	1,495,836	3,160,292	1,958,470
Financing expense, net	15	1,704,042	1,916,348	3,357,606	3,732,646
Accretion expense	15	255,403	1,434,561	499,597	2,784,492
Change in fair value of derivative liabilities	15,16	(585,361)	(233,779)	(660,778)	(798,348)
Other expense (income)	8	505,650	55,951	238,727	(95,266)
Loss before income tax		(492,209)	(1,677,245)	(274,860)	(3,665,054)
Income tax	18	-	-	-	-
Net loss		$ (492,209)	$ (1,677,245)	$ (274,860)	$ (3,665,054)
Other comprehensive loss					
Items that will subsequently be reclassified to operations:					
Unrealized gain (loss) on foreign currency translation		477,513	56,912	216,639	(20,283)
Comprehensive loss		$ (14,696)	$ (1,620,333)	$ (58,221)	$ (3,685,337)
Loss per share - basic and diluted		$ (0.00)	$ (0.02)	$ (0.00)	$ (0.04)
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 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, 2024 and December 31, 2023
(Expressed in United States dollars)

	Note	June 30, 2024	(Audited) December 31, 2023
Assets			
Current assets			
Cash		$ 3,583,404	$ 153,830
Trade receivables, net	9	843,809	64,947
Financing receivables, short-term	10	25,746,788	28,204,723
Prepaid and other current assets	11	94,899	148,574
Total current assets		30,268,900	28,572,074
Non-current assets			
Property and equipment	12	3,108	4,929
Financing receivables, long-term	10	43,354,600	55,514,720
Total non-current assets		43,357,708	55,519,649
Total assets		$ 73,626,608	$ 84,091,723
Shareholders' equity and liabilities			
Current liabilities			
Loans and borrowings, short-term	15	$ 3,721,798	$ 74,853,157
Trade and other payables	13	493,786	690,639
Accrued expenses	14	3,707,888	4,426,564
Warrant derivative liabilities	16	-	42,928
Embedded derivative liabilities	15	-	617,850
Total current liabilities		7,923,472	80,631,138
Non-current liabilities			
Loans and borrowings, long-term	15	62,067,617	-
Total liabilities		69,991,089	80,631,138
Shareholders' equity			
Share capital	17	21,158,842	21,158,842
Reserves		12,406,892	12,173,737
Conversion feature - debentures		930,697	930,697
Accumulated other comprehensive income		3,851,819	3,635,180
Accumulated deficit		(34,712,731)	(34,437,871)
Total shareholders' equity		3,635,519	3,460,585
Total shareholders' equity and liabilities		$ 73,626,608	$ 84,091,723

Nature of operations and background information (Note 1)
Subsequent events (Note 25)

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, 2024 and 2023
(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, 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	17	2,201,601	(2,202)	-	-	-	-	-	-
Share-based incentive compensation	19	-	-	-	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
Balance at January 1, 2024		77,728,044	26,156	$ 21,158,842	$ 12,173,737	$ 930,697	$ 3,635,180	$ (34,437,871)	$ 3,460,585
Share-based incentive compensation	19	-	-	-	233,155	-	-	-	233,155
Net loss and comprehensive loss		-	-		-	-	216,639	(274,860)	(58,221)
Balance at June 30, 2024		77,728,044	26,156	$ 21,158,842	$ 12,406,892	$ 930,697	$ 3,851,819	$ (34,712,731)	$ 3,635,519

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, 2024 and 2023
(Expressed in United States dollars)

	Note	Six months ended June 30, 2024	Six months ended June 30, 2023
Cash flows from operating activities			
Net loss for the year		$ (274,860)	$ (3,665,054)
Adjustments to reconcile loss to net cash flows:			
Depreciation and amortization	12	1,821	9,336
Change in fair value of derivative liabilities	15,16	(660,778)	(798,348)
Loss (gain) on lease termination	8,10	14,573	(68,800)
Share-based incentive compensation expense	19	233,155	1,511,867
Interest expense paid in kind	15	496,055	444,516
Accretion expense	15	499,597	2,784,492
		309,563	218,009
Change in working capital items:			
Trade and other receivables	9	(778,862)	-
Financing receivables	10	14,603,482	(521,933)
Prepaid and other current assets	11	53,675	104,829
Trade and other payables	13	(196,853)	(1,873,874)
Accrued expenses	14	(718,676)	90,120
Net cash flows provided by (used in) operating activities		13,272,329	(1,982,849)
Cash flows from financing activities			
Proceeds from loans and borrowings	15	47,275,000	13,100,000
Repayment of loans and borrowings	15	(17,022,383)	(12,022,242)
Repayment of convertible notes	15	(40,056,815)	-
Payment of debt financing and issuance costs	15	(255,196)	-
Net cash flows provided by (used in) financing activities		(10,059,394)	1,077,758
Effect of exchange rate changes on cash		216,639	(20,283)
Net increase (decrease) in cash		3,429,574	(925,374)
Cash at beginning of the period		153,830	1,040,932
Cash at end of the period		$ 3,583,404	$ 115,558
Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 2,775,197	$ 3,208,896

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 August 29, 2024.

(2) Acquisition to become a privately held company

In June 2024, the Company announced it had entered into a definitive agreement to be taken private pursuant to which XS Acquisition Portfolio LLC (the "Purchaser"), an affiliate of a US alternative asset fund, will acquire all of the issued and outstanding subordinate voting shares ("SV Shares") and proportionate voting shares ("PV Shares") of the Company, by plan of arrangement for a cash purchase price of $0.05265CAD per SV Share and $52.65CAD per PV Share (the "Arrangement"). Upon completion of the Arrangement, the Company will become a privately held company.

Transactions conditions and timing

The Company intends to convene an annual general and special meeting of shareholders to be held in Q3 2024 to seek securityholder approval for the Arrangement (the "Meeting"). The transaction will be effected by way of a court-approved plan of arrangement under Section 288 of the Business Corporations Act (British Columbia) and will require:

- approval of at least 66 2/3% of the votes cast by holders of SV Shares at the Meeting, voting separately as a class;
- approval of at least 66 2/3% of the votes cast by holders of PV Shares at the Meeting, voting separately as a class;
- approval of at least 66 2/3% of the votes cast by holders of SV Shares, PV Shares, outstanding stock options of XS ("XS Options") and outstanding share purchase warrants of XS ("XS Warrants") at the Meeting, voting together as a single class;
- a simple majority of the votes cast by holders of SV Shares at the Meeting, excluding votes from certain shareholders as required under Multilateral Instrument 61-101 ("MI 61-101"); and

- a simple majority of the votes cast by holders of PV Shares at the Meeting, excluding votes from certain shareholders as required under MI 61-101.

The completion of the transaction is also subject to the receipt of court, stock exchange and other required regulatory approvals, along with customary closing conditions for transactions of this nature. The Arrangement does not require approval of the Purchaser shareholders. Upon completion of the Arrangement, an application will be made to delist the SV Shares from the Canadian Securities Exchange and the OTCQB and the Company will submit an application to cease to be a reporting issuer under applicable Canadian securities laws.

The directors, senior officers, and certain other shareholders of the Company, holding in aggregate over 48% of the issued and outstanding SV Shares, over 99% of the issued and outstanding PV Shares, over 84% of the issued and outstanding CSE: XSF 2 1396-7868-0077.2 Company Options, and 10% of the issued and outstanding Company Warrants, have entered into voting support agreements with the Purchaser, pursuant to which they have agreed to vote their respective securities of the Company in favor of the Arrangement .

The transaction is expected to close before the end of the 2024 third quarter.

Options and warrants

Pursuant to the Arrangement, each Company Option and Warrant outstanding immediately prior to the effective time of the Arrangement shall be automatically cancelled without any payment by the Purchaser.

(3) 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 6 below.

(4) Going concern

The condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses and negative cash flows from operations since inception and has an accumulated deficit of $34,712,731 and $34,437,871 as of June 30, 2024, and December 31, 2023, respectively. These matters are material uncertainties that cast significant doubt on the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company anticipates incurring additional losses until such time that it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements. The condensed consolidated financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed consolidated financial statements. These adjustments could be material.

(Expressed in United States Dollars)

The operations of the Company are subject to certain risks and uncertainties including, among others: uncertainty of product development; technological uncertainty; commercial acceptance of any developed products; dependence on collaborative partners; uncertainty regarding patents and proprietary rights; comprehensive government regulations; market risk; and dependence on key personnel.

(5) Material accounting policies

The Company has applied the same accounting policies and methods of computation in its interim condensed consolidated financial statements as in its 2023 and 2022 annual consolidated financial statements. The Company had no additional new standards adopted that resulted in changes to the Company's accounting policies for the three months ended March 31, 2024, except for adoption of the amended *IAS 7 – Cash Flow Statements* and *IFRS 7 Financial Instruments* on January 1, 2024.

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, 2024:				
Assets:				
Investments (Note 11)	$ 151	$ -	$ -	$ 151
As of December 31, 2023:				
Assets:				
Investments (Note 11)	$ 230	$ -	$ -	$ 230
Liabilities:				
Warrant derivative liabilities (Note 16)	$ -	$ -	$ 42,928	$ 42,928
Embedded derivative liabilities (Note 15)	-	-	617,850	617,850
	$ -	$ -	$ 660,778	$ 660,778

(Expressed in United States Dollars)

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, 2024:

	Warrant derivative liabilities	Embedded derivative liabilities	Total
Balance at December 31, 2023	$ 42,928	$ 617,850	$ 660,778
Net change in unrealized fair value	(42,928)	(617,850)	(660,778)
Balance at June 30, 2024	$ -	$ -	$ -

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, 2024, the Company adopted the amended *IAS 7 – Cash Flow Statements (“IAS 7”)* and *IFRS 7 Financial Instruments (“IFRS 7*”). The amendment requires disclosures to enhance the transparency of supplier finance arrangements and their effects on a company’s liabilities, cash flows and exposure to liquidity risk. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standard for *IAS 7 and IFRS 7.*

(6) Critical accounting estimates and judgements

In the application of the Company’s accounting policies, which are described in Note 5 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 Property and Equipment and Estimate of Useful Lives

Depreciation of property and equipment is dependent upon estimates of useful lives. The Company estimates the useful lives of these assets based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets.

Long-Lived Assets and Impairment

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company estimates its recoverable amount. An impairment loss is recognized to the extent the carrying value exceeds its recoverable amount. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Share-based Incentive Compensation

The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. The assumptions and models used for estimating fair value for share-based payment transactions is disclosed in Note 19. The expected volatility assumptions for the Company's option and warrant grants are based on both the Company's and comparable companies' volatility.

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 15 and 16.

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 15.

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.

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.

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's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

(Expressed in United States Dollars)

(7) Revenue

The following table presents a disaggregation of revenue by source:

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Revenue source:				
Financing income on financing leases (Note 10)	$ 2,375,859	$ 2,870,427	$ 5,058,105	$ 5,671,472
Other revenue	14,839	119,987	18,817	161,911
	$ 2,390,698	$ 2,990,414	$ 5,076,922	$ 5,833,383

Revenue concentration

All of the Company's revenue is derived from customers in the United States. Two customers represented 30% and 22% of the Company's revenue for the three months ended June 30, 2024, and three customers represented 30%, 14% and 14% of the Company's revenue for the three months ended June 30, 2023. The same two customers represented 29%, and 22% of the Company's revenue for the six months ended June 30, 2024 and the same three customers represented 31%, 14% and 14% of the Company's revenue for the six months ended June 30, 2023.

(8) Expenses by nature

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

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Administrative expenses:				
Compensation and benefits	$ 501,354	$ 715,068	$ 1,003,630	$ 1,355,587
Share-based incentive compensation	84,656	208,880	233,155	1,511,867
Contractors and outside services	18,470	57,961	39,447	131,860
Professional fees	226,835	128,911	298,173	269,285
Travel, meals and entertainment	5,135	13,507	15,223	39,980
Insurance	17,772	27,764	35,543	51,982
Depreciation expense	877	4,520	1,821	9,336
Other expenses	119,472	250,522	230,773	315,187
	$ 974,571	$ 1,407,133	1,857,765	$ 3,685,084
Sales and marketing expenses:				
Compensation and benefits	$ 25,740	$ 82,682	$ 51,885	$ 175,199
Advertising and marketing	2,862	3,580	5,864	10,966
Other expenses	-	1,183	1,116	3,664
	$ 28,602	$ 87,445	$ 58,865	$ 189,829
Other expense (income):				
Loss (gain) on foreign currency translation	$ 484,333	$ 58,472	$ 224,075	$ (19,096)
Loss (gain) on lease termination	21,238	(3,709)	14,573	(68,800)
Other expense (income)	79	1,188	79	(7,370)
	$ 505,650	$ 55,951	$ 238,727	$ (95,266)

(Expressed in United States Dollars)

(9) Accounts receivable

The following table presents accounts receivable:

	June 30, 2024	December 31, 2023
Trade receivables	$ 174,018	$ 64,947
Unbilled receivables	669,791	-
	$ 843,809	$ 64,947

Trade receivables are measured at amortized cost net of allowance for uncollectible amounts. The Company determines its expected credit loss based on a number of factors, including length of time an account is past due, the customer's previous loss history, and the ability of the customer to pay its obligation to the Company. The Company writes off receivables when they become uncollectible. Expected credit losses are included in general and administration expenses within the consolidated statements of loss and comprehensive loss.

The unbilled receivables represent an equipment sale to a third party from a terminated lease that will be billed and collected over a six month period starting in May 2024.

(10) Financing receivables

The following table presents financing receivables:

	June 30, 2024	December 31, 2023
Financing receivables, short-term	$ 25,746,788	$ 28,204,723
Financing receivables, long-term	43,354,600	55,514,720
	$ 69,101,388	$ 83,719,443

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.

(Expressed in United States Dollars)

The following table presents a maturity analysis of financing receivables, including the undiscounted lease payments to be received as of June 30, 2024:

2024	$ 17,748,605
2025	27,933,154
2026	20,832,537
2027	9,162,550
2028	2,975,760
Thereafter	6,477,555
Total undiscounted lease payments receivable	85,130,161
Unearned finance income	(16,028,773)
Net investment in lease	$ 69,101,388

Allowance for credit losses

The Company measures loss allowances based on an ECL impairment model for all financial instruments except those measured at FVTPL. In April 2024, the Company become aware that a single customer, whose assets were previously put in receivership during 2023 as result of ongoing debt dispute with a lender of the customer, may reject its leases with the Company. In May 2024, the court presiding over the receivership (“the court”) indicated it would grant the receiver's petition to terminate the leases following a reasonable period for the Company to inspect and take possession of the equipment which is expected to occur by the end of August 2024. Additionally, the court directed the customer that monthly lease obligations during the period of equipment inspection should still be paid but left the amount subject to negotiation between the Company and the customer. Through April 2024 the customer paid all amounts due under its lease obligations but has not paid any lease obligations due since April 2024. As a result, the Company has stopped recognizing revenue associated with the remaining leases for this customer starting in May 2024. The customer and the receiver have also permitted the Company to offer equipment under the leases for sale or assumption of the remaining lease terms to third parties, which the Company has done with approximately $1,484,000 of the lease receivables underlying equipment sold or transferred to third parties or other customers. As of June 30, 2024, the Company had approximately $1,325,000 of remaining leases receivables of which $1,611,000 was outstanding undiscounted lease receivables and $286,000 was unearned finance income for this customer. Company management has determined that the value of all remaining equipment under this customer’s leases can be sold or transferred to third parties at amounts that would exceed any expected credit losses. Therefore, as of June 30, 2024, the Company has not recognized a loss allowance for expected credit losses on financing receivables.

Financing receivable concentration

The Company has 32%, 21% and 10% of its financing receivables with three customers as of June 30, 2024, and 32%, and 21% of its financing receivables with the same two customers as of December 31, 2023.

(Expressed in United States Dollars)

(11) Prepaid and other current assets

The following table presents prepaid and other current assets:

	June 30, 2024	December 31, 2023
Prepaid insurance	$ 32,014	$ 67,557
Prepaid software costs	37,049	-
Investments	151	230
Canada tax receivable	11,049	12,238
Other	14,636	68,549
	$ 94,899	$ 148,574

(12) Property and equipment

The following table below presents the change in carrying value of the Company's property and equipment for six months ended June 30, 2024:

	Computers	Machinery and equipment	Total
Cost:			
Balance at December 31, 2023	$ 23,742	$ 3,490	$ 27,232
Balance at June 30, 2024	$ 23,742	$ 3,490	$ 27,232
Accumulated Depreciation:			
Balance at December 31, 2023	$ (18,813)	$ (3,490)	$ (22,303)
Depreciation	(1,821)	-	(1,821)
Balance at June 30, 2024	$ (20,634)	$ (3,490)	$ (24,124)
Net book value:			
Balance at December 31, 2023	$ 4,929	$ -	$ 4,929
Balance at June 30, 2024	$ 3,108	$ -	$ 3,108

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

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

(Expressed in United States Dollars)

(13) Trade and other payables

The following table presents trade and other payables:

	June 30, 2024	December 31, 2023
Trade payables	$ 491,010	$ 690,639
Other payables	2,776	-
	$ 493,786	$ 690,639

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

(14) Accrued expenses

The following table presents accrued expenses:

	June 30, 2024	December 31, 2023
Accrued servicing equipment purchases	$ 3,094,278	$ 4,012,681
Accrued interest	332,718	246,363
Accrued professional fees	-	70,000
Accrued compensation, commissions, benefits and related taxes	223,659	36,364
Accrued sales tax	57,233	56,156
Unearned revenue	-	5,000
	$ 3,707,888	$ 4,426,564

(Expressed in United States Dollars)

(15) Loans and borrowings

The following table presents loans and borrowings outstanding:

Description	Maturity date	Interest rate	June 30, 2024	December 31, 2023
Line of credits:				
Revolving credit facility	June, 2027	10.00%	$ 62,067,617	$ 31,815,000
Convertible debentures:				
Broker debentures	September, 2024	10.00%	218,869	218,869
Sub Receipt debentures	September, 2024	10.00%	3,952,800	3,952,800
Convertible notes	June, 2024	9.50%	-	39,560,760
			66,239,286	75,547,429
Less:				
Unamortized discounts, debt issuance costs, financing costs and prepaid offering costs (1)			(449,871)	(694,272)
			$ 65,789,415	$ 74,853,157
Non-current			$ 62,067,617	$ -
Current			$ 3,721,798	$ 74,853,157

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, 2024:

	Line of credits	Convertible debentures	Debt discounts, issuance costs and deferred financing costs	Total
Balance at December 31, 2023	$ 31,815,000	$ 43,732,429	$ (694,272) (1)	$ 74,853,157
Borrowings	47,275,000	-	-	47,275,000
Repayments	(17,022,383)	(40,056,815)	-	(57,079,198)
Issuance of additional convertible notes as payment for PIK Interest	-	496,055	-	496,055
Deferred financing costs	-	-	(255,196) (2)	(255,196)
Amortization and accretion of debt discounts, financing costs and debt issuance costs	-	-	499,597	499,597
Balance at June 30, 2024	$ 62,067,617	$ 4,171,669	$ (449,871)	$ 65,789,415

Notes to the table:

(1) Represents (i) debt discounts and debt issuance costs netted against the gross proceeds of the Sub Receipt debenture issuance in 2019, (ii) debt discounts and debt issuance costs netted against the gross proceeds of the convertible notes issuances in 2021 and 2022 and the subsequent amendment in August 2023 (iii) deferred financing costs related to the Company's revolving credit facility and (iv)

the loss on debt modification related to the August 2023 amendment of convertible notes. All amounts are net of the amortization and accretion of debt discounts, debt issuance costs, financing costs and debt modification loss.

(2) Represents deferred financing costs related to the Company's June 2024 amended revolving credit facility.

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 2023, the Company amended certain terms of the convertible notes including extending the maturity date of the convertible notes from October 2023 to June 30, 2024. In August and October 2023, the Company entered into repayment and release agreements with convertible note holders whereby the Company repaid $5,703,886 of original principal and accrued PIK interest at a discount of $5,258,259, and wrote off $33,923 of unamortized discounts, issuance costs, debt modification losses and warrant derivative liabilities associated with the repurchased convertible notes. As a result of these transactions the Company recorded a gain on debt extinguishment of $411,704 in the condensed consolidated statements of loss and comprehensive loss in the third and fourth quarters of 2023. In June 2024, the Company entered into repayment and release agreements with all remaining convertible note holders whereby the Company repaid a total of approximately $40,753,000 for all of the outstanding original principal, accrued PIK interest and accrued cash interest. The convertible notes were subject to a quarterly total leverage ratio financial covenant and as part of the August 2023 amendment the holders of the convertible notes had agreed to forebear taking any action for noncompliance over the remaining term 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 accrued at the rate of (i) 9.50% per annum. The August 2023 amendment changed the interest rate components from 7.50% payable in cash and the remaining 2.00% payable in kind by the issuance of additional convertible notes ("PIK Interest") to 7.00% payable in cash 2.50% payable as PIK interest. In the event the Shares had commenced trading on a market tier of the Nasdaq Stock Market LLC (a "NASDAQ Listing"), interest would have accrued at a rate of 8.00% per annum, of which 6.00% would have been payable in cash, and the remaining 2.00% would have been 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 16). 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 August and October 2023 repayment and release agreements resulted in the cancellation of 2,750,000 warrants (Note16).

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 in the third quarter of 2023. The Company also 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. The debt modification loss, debt discounts and debt issuance costs have all been fully amortized as of June 30, 2024.

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.

In September 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.

Line of credits

The Company maintains a senior secured revolving credit facility ("revolving credit facility") with a FDIC insured bank with a current a maximum borrowing base of $70,000,000. The revolving credit facility was originally entered into in December 2022 and has had multiple amendments with the last amendment occurring in June 2024 resulting in the maximum borrowing base increasing to its current amount of $70,000,000. The June 2024 amendment also extended the revolving credit facility term from August 2024 to June 2027, and changed the annual interest rate to equal the Wall Street Journal Prime rate plus one percent (1.0%) when the advance rate applied to eligible borrowing base receivables is less than 65% and the Wall Street Journal Prime rate plus one and a half percent (1.5%) when the advance rate applied to eligible borrowing base receivables is between 65% and 75%. Prior to the June 2024 amendment the revolving credit facility bore 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, 2024. The revolving credit facility is secured by substantially all of the assets of the Company. The Company has incurred fees and financing costs of $673,612, which are 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.

(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. In June 2023, the Company repaid the remaining outstanding principal balances of the syndication notes. The syndication notes bore interest at rates between 10.25% and 12% per annum, payable monthly, and were secured by the lease payment streams and the underlying equipment of certain finance leases the Company had entered into with customers.

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, 2024, and 2023, respectively:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Financing expense:				
Convertible debentures	$ 1,045,777	$ 1,163,106	$ 2,087,151	$ 2,320,311
Term loans	-	87,454	-	191,002
Line of credits	658,265	665,788	1,270,455	1,221,333
	$ 1,704,042	$ 1,916,348	$ 3,357,606	$ 3,732,646

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, 2024, in conjunction with the repayment of the remaining convertible notes the embedded derivative liabilities were re-valued at $nil with the change in fair value of $(724,374)CAD ($(533,000)) and $(839,689)CAD ($(617,850)) reflected in the condensed consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2024, respectively. A change in fair value of $63,776CAD ($(47,000)) and $(702,897)CAD ($(518,000)) is reflected in the condensed consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2023, respectively.

(Expressed in United States Dollars)

(16) Warrants

The following table summarizes warrant activity for the six months ended June 30, 2024:

	Number of warrants	Weighted average exercise price per share
Outstanding at December 31, 2023	25,820,077	$ 0.55
Expired and cancelled	(500,000)	$ (0.82)
Outstanding at June 30, 2024	25,320,077	$ 0.54

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 15), 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 and October 2023, in connection with the repurchase of convertible notes (Note 15) the Company cancelled 1,250,000 and $1,500,000, respectively, of warrants originally issued in October 2021. As a result of these cancellations the Company recorded a gain on debt extinguishment of $9,150 within the other expense line item in the condensed consolidated statements of loss and comprehensive loss in the third and fourth quarters of 2023.

At June 30, 2024, the warrant derivative liabilities were re-valued using the Black-Scholes option pricing model at $nil, with the change in fair value of $(70,872)CAD ($(52,361)) and $(56,918)CAD ($(42,928)) reflected in the condensed consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2024, respectively. A 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.

(Expressed in United States Dollars)

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, 2024:

Expected dividend yield		-
Expected volatility		164.6%
Risk-free interest rate		3.8%
Expected term		0.3 years
Conversion / share price	$	0.33 - 0.36

The following table presents warrants outstanding at June 30, 2024:

Expiration date	Term (years)	Number of warrants outstanding	Number of warrants exercisable	Exercise price US $	Exercise price CAD $
Common share warrants:					
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	14,000,000	14,000,000	$ 0.36	$ 0.45
28-Oct-24	2	5,000,000	5,000,000	$ 0.33	$ 0.45
Total		25,320,077	25,320,077		

The weighted average remaining term for outstanding warrants is 0.3 years, and the weighted average exercise price is $0.71CAD ($0.54) as at June 30, 2024.

(17) Share capital

As at June 30, 2024, and December 31, 2023, 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, 2024, and December 31, 2023, the Company had 77,728,044 issued and outstanding common shares and 26,156 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)

(18) Income taxes

The Company recognized a deferred income tax provision of $nil for both the three and six months ended June 30, 2024, and 2023.

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% for the three and six months ended June 30 2024 and 2023, respectively.

(19) 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.

The Company did not grant any share options during the period of January 1, 2024 through June 30, 2024.

In January and March 2024, the Company cancelled 2,764,941 common share options.

The following table summarizes stock option activity under the Option Plan for the six months ended June 30, 2024:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at December 31, 2023	13,765,798	$ 0.14	5.4
Cancelled / forfeited	(2,764,941)	$ 0.13	
Outstanding at June 30, 2024	11,000,857	$ 0.14	5.1
Exercisable and vested at June 30, 2024	7,345,868	$ 0.17	4.2

As of June 30, 2024, there was approximately $322,000 of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 0.9 years.

The Company recorded compensation expense for stock options of $84,656 and $208,880 for the three months ended June 30, 2024 and 2023, respectively, and $233,155 and $1,511,867 for six months ended June 30, 2024 and 2023, respectively, within the condensed consolidated statements of loss and comprehensive loss.

(Expressed in United States Dollars)

The following table summarizes the stock options outstanding as at June 30, 2024:

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	4.05	300,759	300,759
November 2024	$ 0.26	$ 0.34	0.41	1,055,000	1,055,000
April 2025	$ 0.16	$ 0.22	0.81	533,376	533,376
December 2025	$ 0.18	$ 0.23	1.46	16,565	16,565
March 2026	$ 0.26	$ 0.33	1.74	1,380,180	1,380,180
April 2026	$ 0.27	$ 0.33	1.82	100,000	100,000
September 2026	$ 0.16	$ 0.20	2.19	610,000	457,500
January 2027	$ 0.14	$ 0.18	2.58	1,302,480	651,240
October 2027	$ 0.09	$ 0.13	3.29	498,726	249,363
February 2033	$ 0.05	$ 0.07	8.60	5,203,771	2,601,885
	$ 0.14	$ 0.18	5.07	11,000,857	7,345,868

(20) 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 ($23,000 for calendar year 2024). Participants are eligible to receive a matching contribution from the Company of 100% of the first 4% of contributions. The Company contributed $12,721 and $17,798 for the three months ended June 30, 2024, and 2023, respectively, and $26,676 and $28,156 for six months ended June 30, 2024, and 2023, respectively.

(21) Related party transactions

The following presents balances and transactions between the Company and other related parties as of June 30, 2024, and for the three and six months ended June 30, 2024, and 2023, 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:

(Expressed in United States Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Salaries, contractor costs, management fees and benefits	$ 285,625	$ 383,333	$ 571,250	$ 682,083
Incentive compensation (non-cash)	51,919	107,272	124,610	900,725
	$ 337,544	$ 490,605	$ 695,860	$ 1,582,808

See also Note 19.

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, 2024, and 2023:

	Archytas (1)
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	$ - (2)
Amounts due to related parties at January 1, 2024	$ 6,341
Operating expenses	12,682
Less payments to related parties	(12,682)
Amounts due to related parties at June 30, 2024	$ 6,341 (2)

Notes to table:
(1) Archytas is a shareholder of the Company, having been involved in the initial formation of XSI.
(2) Reflected as a component of accrued expenses within the consolidated statements of financial position.

Related party loans and borrowings

In June 2023, the Company repaid the remaining outstanding balances of syndication term loans (Note 15) of certain officers and directors of the Company that originated in August and November 2021.

(22) 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, 2024. See also Note 10.

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

Liquidity risk

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

At June 30, 2024, the Company had current assets of $30,268,900 and current liabilities of $7,923,472. All current liabilities are classified as due within one year.

At June 30, 2024, 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	$ 493,786	$ -	$ -	$ 493,786
Accrued expenses	3,707,888	-	-	3,707,888
Loans and borrowings (1)	4,171,669	-	62,067,617	66,239,286
Balance at June 30, 2024	$ 8,373,343	$ -	$ 62,067,617	$ 70,440,960

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:

(Expressed in United States Dollars)

	June 30, 2024	December 31, 2023
Tax receivable	$ 11,049	$ 12,238
Trade payable	$ 147,901	$ 26,916
Loans and borrowings [(1)]	$ 5,493,000	$ 5,493,000

Note to the table:
(1) Represents broker debentures and sub receipt convertible debentures (Note 15).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's line of credit is subject to fluctuations in interest rates and therefore exposes the Company to interest rate fair value risk. The remainder of the Company's financial debt and lease receivables have fixed rates of interest resulting in limited interest rate fair value risk for the Company. 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, 2024.

(23) Capital management

The Company considers its capital structure to include equity and debt; namely, its bank indebtedness, convertible notes, and convertible debentures. The Company's objectives when managing capital are to: (a) maintain financial flexibility in order to preserve its ability to meet financial obligations and continue as a going concern (Note 4); (b) maintain a capital structure that allows the Company to finance its growth using internally- generated cash flow and debt capacity; and (c) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company's debt and leverage will usually rise with an increase in finance receivables and vice-versa. The Company's share capital is not subject to external restrictions. However, the Company's 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, 2024 (Note 15).

(24) 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.

(25) Subsequent events

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the independent auditors’ report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any other items requiring recognition or disclosure, except for the following.

Lease originations

In the months of July and August 2024, the Company completed two lease transactions Ayr Wellness. During this period, the Company originated approximately $34,000 of leases.