MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

The following Management’s Discussion and Analysis (“**MD&A**”) of the financial condition and results of the operations of XS Financial Inc. (“**XSF**”, the “**Company**”, “**our**” or “**we**”) constitutes management’s review of the factors that affected the Company’s financial and operating performance for the years ended December 31, 2020 and 2019. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2020 together with the notes thereto. The annual financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All amounts in the annual financial statements and this discussion are expressed in United States dollars, unless otherwise stated. The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at April 23, 2021 unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of XSF’s securities; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

This discussion contains "forward-looking information" and may also contain statements that may constitute "forward-looking statements", collectively “forward-looking information”, within the meaning of applicable Canadian securities legislation. Such forward-looking information is not representative of historical facts or information or current condition, but instead represent the beliefs and expectations regarding future events about the business and the industry and markets in which XSF operates, as well as plans or objectives of management, many of which, by their nature, are inherently uncertain. Generally, such forward-looking information can be identified by the use of terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or may contain statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "will continue", "will occur" or "will be achieved".

Management considers the assumptions on which forward-looking information is based to be reasonable at the time the statements were made. Accordingly, actual results could differ materially from those expressed or implied within forward-looking information.

GOING CONCERN ASSUMPTION

The 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 $18,639,943 and $13,586,621 as of December 31, 2020 and December 31, 2019, respectively. These matters, in conjunction with the ongoing COVID-19 global pandemic, are material uncertainties that cast significant doubt on the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The

Company anticipates incurring additional losses until such time that it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements. The 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 consolidated financial statements. These adjustments could be material.

OVERVIEW OF THE COMPANY

Company Background

XSF, 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".

Xtraction Services, Inc. ("XSI") was originally established as a Delaware limited liability company on October 9, 2017. In July 2018, XSI filed with the Secretary of State of Delaware to change its corporate status from a Delaware limited liability company to a Delaware corporation and elected to be classified as a corporation. On July 19, 2018, XSI received a Certificate of Conversion and Certificate of Incorporation from the Secretary of State of Delaware.

On March 22, 2019, XSI entered into a definitive merger agreement with Caracara pursuant to which Caracara would acquire all of the issued and outstanding common shares of XSI. The transaction was structured as a “reverse triangular merger” between XSI, Caracara and a wholly-owned subsidiary of Caracara incorporated under the laws of Delaware. On September 11, 2019, the merger became effective whereby Caracara's subsidiary acquired all of the issued and outstanding Class A and Class B common shares, stock options and warrants of XSI and the resulting issuer changed its name from Caracara Silver Inc. to XS (formerly known as Xtraction Services Holdings Corp.) and continued with the business of XSI.

On July 13, 2020, the Company purchased CA Licensed Lenders LLC ("CFLL"), whereby the only asset was a California lenders license.

Description of Business

XS Financial provides the U.S. cannabis industry access to competitively-priced, non-dilutive CAPEX financing solutions. Founded in 2017, the Company specializes in providing financing for equipment and other qualified capital expenditures to growing cannabis companies, including cultivators, processors, manufacturers and testing laboratories. In addition, XSF has partnered with over 150 original equipment manufacturers (OEM) through its network of Preferred Vendor partnerships. This powerful dynamic provides an end-to-end solution for customers, resulting in recurring revenues, strong profit margins, and a proven business model for XSF stakeholders.

The Company predominantly generates equipment leases through its employee sales force, who focus on equipment vendors and direct equipment users. XSF distinguishes itself from traditional equipment leasing companies in that it:

- offers equipment-specific leasing, sale-leasebacks, and purchasing solutions;

- contracts are primarily generated through its relationships with industry vendors that provide XSF services at the point of sale, and direct relationships; and
- provides equipment procurement

XSF provides customers with the option of leasing equipment in consideration for monthly lease payments (pursuant to lease agreements).

Recent Developments and Outlook

Revenue Activity

XSF continues to assess numerous leasing opportunities and intends to focus on pursuing those opportunities that align with its growth objectives. Target leasing opportunities will primarily consist of leases to businesses underpinned by recurring, predictable revenues, sound balance sheets and experienced management teams. While the Company recognizes the challenging market dynamics of the Cannabis sector, XSF remains well-positioned to execute its business plan since many Cannabis businesses require mission-critical equipment to operate and grow but lack sufficient access to new capital or are burdened with expensive sources of financing.

During the year ended December 31, 2020, the Company added 5 new customers and completed 15 lease transactions with publicly-traded and private cannabis companies including, but not limited to, PharmaCann Inc., ("PharmaCann), Columbia Care Inc. ("Columbia Care") and Ayr Wellness Inc., "Ayr Wellness").

In May, June, August, November, and December 2020, the Company entered into six new leasing arrangements with PharmaCann, a vertically-integrated cannabis company operating cultivation, manufacturing, distribution and retail locations in multi-states in the USA. Per the terms of the agreements, the leases have terms of 48 months with expected monthly rentals and fees that total approximately $4,900,000 which includes end of lease term purchase options for approximately $170,000.

In September, October and December 2020, the Company entered into five new leasing arrangements with Ayr Wellness, an expanding vertically integrated, U.S. multi-state cannabis operator, focused on delivering the highest quality cannabis products and customer experience throughout its footprint. Per the terms of the agreements, the leases have terms ranging from 42 to 48 months with expected total rentals and fees that total approximately $1,100,000 which includes end of lease term purchase options for approximately $22,000.

In November 2020, the Company entered into a leasing arrangement with Columbia Care, one of the largest and most experienced multi-state operators in the medical cannabis industry, with licenses in 15 jurisdictions in the US and the EU. Per the terms of the agreements, the lease has a term of 48 months with expected total rentals and fees that total approximately $2,000,000 which includes an end of lease purchase option for $1.

Share Swap

In January 2020, the Company entered into a strategic partnership and cooperation agreement with KushCo Holdings Co. Inc. ("KushCo") whereby the Company issued 10,600.3 proportionate voting shares at a share price of $380CAD ($290) for total consideration of $3,273,101 in exchange for 1,653,081 shares of KushCo valued at the fair value of the KushCo shares at the time of receipt. On completion of the share swap, KushCo became a 19.9% shareholder of the Company.

In November and December 2020, the Company sold 1,257,839 shares of the KushCo stock for net proceeds of approximately $994,000.

Servicing Equipment and Spare Parts Inventory Divestitures

During the year ended December 31, 2020, the Company sold excess servicing equipment and spare parts inventory to both third party buyers and the Company's original supplier of servicing equipment, Khrysos Global Inc. ("Khrysos"). The total of these transactions resulted in the Company reducing the net book value of servicing equipment and inventory by approximately $927,000, receiving gross proceeds of approximately $605,000 and recognizing losses of approximately $322,000.

Acquisition

In July 2020, the Company acquired all of the outstanding shares of CA Licensed Lenders LLC for its California lenders license in exchange for 450,761 common shares of the Company. The common shares were valued at $0.29CAD ($0.21) on the date of the acquisition resulting in total consideration of $96,237 plus transaction costs of $13,651.

Components of Our Results of Operations

Financing Income and Operating Lease Revenue

Financing Income and Operating Lease Revenue represents revenue earned on the financing component of lease transactions and leases not deemed as financing leases. Starting in 2020, the Company has shifted to predominantly entering lease arrangements that generate financing income only.

Equipment and sales-type financing revenue, Cost of sales and Gross profit

Equipment revenue represents revenue derived equipment sales and leasing of previously capitalized equipment on a gross basis only in the normal course of business. As a manufacturer or dealer, the Company recorded leases as sales-type financing leases resulting in the recognition of revenue on acceptance, usually automatic after delivery, installation and testing. Starting in 2020, the Company shifted exclusively into lease arrangements that generate financing income and no longer meets the definition of a manufacturer or dealer.

Cost of sales represents those costs directly attributable to the generation of our equipment and sales-type financing revenue, and primarily includes equipment costs for the purchase and leasing of servicing equipment, personnel costs, including salaries and benefits, supplies, maintenance and repairs. Cost of sales also includes non-cash items such as depreciation of the Company's servicing equipment.

Gross profit is calculated as equipment and sales-type financing revenue less cost of sales.

Operating Expenses

Operating expenses consist of administrative, selling and marketing costs. Administrative expenses primarily represent contractor costs, personnel costs, including salaries, benefits, incentive-based non-cash compensation, management fees and other professional service costs, including legal and accounting, to support Company operations. Selling and marketing costs primarily represent marketing activities, commissions, trade shows, contractor costs and personnel costs, including a portion of salaries, benefits and marketing activities related to customer acquisition.

Other (Income) Expense

Other (income) expense consists of (i) financing interest expense on notes payable and convertible debentures, (ii) non-cash interest expense for debt issuance costs and debt discounts related to the issuance of our convertible debentures, (iii) listing expense (iv) gains and losses on the sale of servicing equipment and property and equipment, (v) mark-to-market changes in the fair value of embedded derivatives within the convertible debentures, (vi) mark-to-market changes in the fair value of the Company's investment in KushCo and (vii) impairment loss of the Company's mutual exclusivity and intellectual property intangible asset as a result of Company's termination of the joint venture and corresponding purchase commitments agreement with Khrysos.

Income Taxes (Recovery)

The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2020 as compared to the Three Months Ended December 31, 2019

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

	Three months ended December 31,			
		2020		**2019**
Equipment and sales-type financing revenue	$	-	$	536,531
Cost of sales	$	-	$	712,461
Gross loss	$	-	$	(175,930)
Financing income and operating lease revenue	$	310,697	$	117,793
Operating expenses	$	913,553	$	1,052,712
Other expense	$	123,753	$	1,146,785
Income tax recovery	$	-	$	(384,000)
Net loss	$	(726,609)	$	(1,873,634)
Loss per share - basic and diluted	$	(0.01)	$	(0.04)
Weighted average shares outstanding - basic and diluted		54,882,906		48,210,200

Equipment and Sales-Type Financing Revenue

Equipment and sales-type-financing revenues for three months ended December 31, 2020 were $nil compared with $536,531 for three months ended December 31, 2019. The decrease of $536,531 for three months ended December 31, 2020 as compared to 2019 was attributable to no sale-type lease revenue in 2020 as a result of the Company no longer meeting the definition of a manufacturer or dealer resulting in only the recognition of financing income earned on lease revenue in 2020.

Cost of Sales and Gross Loss

Cost of sales for three months ended December 31, 2020 were $nil compared with $712,461 for three months ended December 31, 2019. The decrease for three months ended December 31, 2020 as compared to 2019 was primarily attributable to a decrease of approximately $443,000 of equipment costs associated with sales-type financing lease purchased and expensed in 2019, and a decrease of approximately $107,000 of a non-cash equipment impairment loss in 2019. The remaining decrease is attributable to the elimination of compensation and benefits costs and equipment depreciation expense associated with being a manufacturer or dealer.

Gross loss for three months ended December 31, 2020 was $nil compared to a loss of $(175,930) for three months ended December 31, 2019. The reduction in gross loss to $nil is a result of the Company's strategic change in focus from a manufacturer or dealer of equipment to a equipment leasing Company.

Financing Income and Operating Lease Revenue

Financing income and operating lease revenue for three months ended December 31, 2020 were $310,697 compared with $117,793 for three months ended December 31, 2019. The increase of $192,904, or 164%, for three months ended December 31, 2020 as compared to 2019 was attributable to revenue recognized from financing income associated with 15 new financing leases between 5 customers in 2020. This increase was partially offset by a decrease in operating lease revenue resulting from all operating leases terminating or completing in 2020.

Operating Expenses

Operating expenses for three months ended December 31, 2020 were $913,553 compared with $1,052,712 for three months ended December 31, 2019. The following table presents the components of operating expenses:

	Three months ended December 31, 2020	Three months ended December 31, 2019
Administrative expenses:		
Personnel and contractor costs	$ 148,081	$ 77,238
Professional fees	108,885	561,514
Incentive compensation	26,993	177,208
Occupancy expenses	(48)	6,875
Management fee	341,001	86,001
Other	318,123	95,846
Total administrative expenses	943,035	1,004,682
Selling and marketing expenses:		
Personnel and contractor costs	$ (72,178)	$ 28,105
Marketing and trade shows	4,267	19,139
Professional fees	37,539	-
Other	890	786
Total selling and marketing expenses	(29,482)	48,030
	$ 913,553	$ 1,052,712

Administrative expenses for three months ended December 31, 2020 were $943,035 compared with $1,004,682 for three months ended December 31, 2019. The decrease of $61,647 for the three months December 31, 2020, as compared to 2019 was primarily attributable to the decrease in professional fees of approximately $453,000 related to legal, audit, tax and internal accounting costs from 2019, including costs associated with preparing for the reverse acquisition, subsequent receipts debenture financing and the Company to be publicly traded. To a lesser degree the decrease is attributable to a reduction in non-cash incentive compensation. The above decreases are partially offset by an increase in the use of third-party contactors and employees, and the management fee charged from a related party for day-to-day executive management and support to the Company.

Selling and marketing expenses for three months ended December 31, 2020 were $(29,482) compared with $48,030 for three months ended December 31, 2019. The decrease of $77,512 for the three months ended December 31, 2020, as compared to 2019 was primarily attributable to a reclass in the fourth quarter to capitalize $108,000 of previously recorded commission expense as a financing receivable asset.

Other (Income) Expense

Other (income) expense for three months ended December 31, 2020 were $123,753 compared with $1,146,785 for three months ended December 31, 2019. The decrease in other expense of $1,023,032 for three months ended December 31, 2020 as compared to 2019 was attributable to decreases of approximately $385,000 in the losses on the sale of servicing equipment from 2019 to 2020, and a 2019 non-cash impairment loss of approximately $472,000 on the impairment of the Company's mutual exclusivity and intellectual property intangible asset as a result of Company's termination of the joint venture and corresponding purchase commitments agreement with Khrysos in November 2019. The decrease from 2019 to 2020 also resulted from a net gain of approximately $256,000 in the fourth quarter of 2020 from sale of the KushCo investment resulting from the reversal of previously recognized unrealized losses of approximately $1,758,000, netted against the recognition of a realized loss of approximately $1,502,000.

Income Tax (Recovery) Expense

Income taxes for three months ended December 31, 2020 were $nil compared with an income tax benefit of $(384,000) for three months ended December 31, 2019.

Net Loss(Income)

The Company's loss for three months ended December 31, 2020 was $(726,609) compared to a loss of $(1,873,634) for three months ended December 31, 2019. The Company anticipates further improvement in losses throughout 2020 due to the increase in new leasing activity, curtailment of excess equipment sales, significant cost reduction initiatives and the absence of costs related to the reverse acquisition.

Year Ended December 31, 2020 as compared to the Year Ended December 31, 2019

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

	Year ended December 31,			
	2020		2019	
Equipment and sales-type financing revenue	$	-	$	1,959,418
Cost of sales	$	-	$	2,616,203
Gross loss	$	-	$	(656,785)
Financing income and operating lease revenue	$	676,460	$	330,399
Operating expenses	$	2,628,521	$	4,149,579
Other expense	$	3,101,261	$	2,853,906
Income tax recovery	$	-	$	(383,025)
Net loss	$	(5,053,322)	$	(6,946,846)
Loss per share - basic and diluted	$	(0.10)	$	(0.18)
Weighted average shares outstanding - basic and diluted		53,145,555		37,562,660

	December 31,			
	2020		2019	
Total assets	$	7,293,996	$	4,474,606
Total liabilities	$	6,759,918	$	3,549,613

Equipment and Sales-Type Financing Revenue

Equipment and sales-type-financing revenues for the year ended December 31, 2020 were $nil compared with $1,959,418 for the year ended December 31, 2019. The decrease of $1,959,418 for the year ended December 31, 2020 as compared to 2019 was attributable to a reduction of approximately $1,016,000 in equipment sales and $930,000 in revenue from sales-type financing lease. The decrease in equipment sales is attributable to a one-time sale to a single customer in 2019 and starting in 2020 the Company no longer sells equipment directly to customers. The decrease in sale-type lease revenue resulted from the Company no longer meeting the definition of a manufacturer or dealer resulting in only the recognition of financing income earned on lease revenue in 2020.

Cost of Sales and Gross Loss

Cost of sales for the year ended December 31, 2020 were $nil compared with $2,616,203 for the year ended December 31, 2019. The decrease for the year ended December 31, 2020 as compared to 2019 was primarily attributable to a decrease of approximately $1,004,000 of equipment costs associated with sales-type financing lease purchased and expensed in 2019, and a decrease of approximately $649,000 of equipment purchases made in 2019 related to the direct sale of equipment to a single customer.

Additionally, there were decreases of approximately $771,000 related to depreciation and amortization expense and compensation and related expenses for personnel providing services to customers.

Gross loss for the year ended December 31, 2020 was $nil compared to a loss of $(656,785) for the year ended December 31, 2019. The reduction in gross loss to $nil is a result of the Company's strategic change in focus from a manufacturer or dealer of equipment to a equipment leasing Company.

Financing Income and Operating Lease Revenue

Financing income and operating lease revenue for the year ended December 31, 2020 were $676,460 compared with $330,399 for the year ended December 31, 2019. The increase of $346,061, or 105%, for the year ended December 31, 2020 as compared to 2019 was attributable to approximately $525,000 increase in revenue recognized from financing income associated with 15 new financing leases between 5 customers entered into in 2020. This increase was partially offset by a decrease in operating lease revenue resulting from all operating leases terminating or completing in 2020.

Since focusing on its financing income and operating lease revenue the Company has seen continual quarterly growth of over the years ended December 31, 2020 and 2019, as broken out quarterly below:

Q1 2020	**Q2 2020***	**Q3 2020**	**Q4 2020**	**Total 2020**
$199,862	$72	$165,829	$310,697	$676,460

Q1 2019	**Q2 2019**	**Q3 2019**	**Q4 2019**	**Total 2019**
$24,868	$97,559	$90,179	$117,793	$330,399

**During the second quarter of 2020, the Company recorded an adjustment related to a change in payment terms of an existing lease which resulted in a reduction of financing income of $103,695 for Q2 2020.*

Operating Expenses

Operating expenses for the year ended December 31, 2020 were $2,628,521 compared with $4,149,579 for the year ended December 31, 2019. The following table presents the components of operating expenses:

	Year ended December 31,	
	2020	**2019**
Administrative expenses:		
Personnel and contractor costs	$ 389,876	$ 360,047
Professional fees	549,702	2,213,209
Incentive compensation	341,324	641,191
Occupancy expenses	23,786	52,932
Management fee	487,201	346,401
Other	527,292	319,733
Total administrative expenses	2,319,181	3,933,513
Selling and marketing expenses:		
Personnel and contractor costs	$ 200,809	$ 95,392
Marketing and trade shows	83,360	69,205
Professional fees	22,315	49,083
Other	2,856	2,386
Total selling and marketing expenses	309,340	216,066
	$ 2,628,521	$ 4,149,579

Administrative expenses for the year ended December 31, 2020 were $2,319,181 compared with $3,933,513 for the year ended December 31, 2019. The decrease of $1,614,332 in the year ended December 31, 2020, as compared to 2019 was primarily attributable to the decrease in professional fees of approximately $1,663,000 related to legal, audit, tax and internal accounting costs from 2019, including costs associated with preparing for the reverse acquisition, subsequent receipts debenture financing and the Company to be publicly traded. The decrease includes approximately $1,120,000 of non-cash professional fees related to issuance of stock and warrants to advisors and brokers in the year ended December 31, 2019. To a lesser degree the decrease is attributable to a reduction in non-cash incentive compensation related to increased expense recognized in 2019 associated with cancelled stock options that accelerated vested. The above decreases are partially offset by an increase in the use of third-party contactors and employees, and the management fee charged from a related party for day-to-day executive management and support to the Company.

Selling and marketing expenses for the year ended December 31, 2020 were $309,340 compared with $216,066 for the year ended December 31, 2019. The increase of $93,274 in the year ended December 31, 2020, as compared to 2019 was primarily attributable to an increase of approximately $105,000 in personnel and contractor costs as the Company has increased its sales initiatives related to leasing activities throughout 2020.

Other (Income) Expense

Other (income) expense for the year ended December 31, 2020 were $3,101,261 compared with $2,853,906 for the year ended December 31, 2019. The increase in other expense of $247,355 for the year ended December 31, 2020 as compared to 2019 was attributable to an increase of approximately $1,963,000 related to the Company's 2020 realized and unrealized losses in the KushCo investment, and a decrease in fair value gains from 2019 of approximately $889,000 related to the derivative liabilities and the Company's change in functional currency. The above increase are partially offset by reductions of (i) approximately $1,169,000 of non-cash accretion expense associated with debt issuance costs, and debt discounts on our term loans and convertible debt, (ii) approximately $252,000 of interest expense on our term loans and convertible debt, (iii) approximately $348,000 of losses on the sale of servicing equipment and property and equipment, (iv) approximately $363,000 of non-cash listing expense for the excess of purchase price paid over nets assets acquired for the Caracara reverse acquisition and (v) approximately $472,000 non-cash impairment loss on the impairment of the Company's mutual exclusivity and intellectual property intangible asset as a result of Company's termination of the joint venture and corresponding purchase commitments agreement with Khrysos in November 2019.

Income Tax (Recovery) Expense

Income taxes for the year ended December 31, 2020 were $nil compared with an income tax benefit of $(383,025) for the year ended December 31, 2019.

Net Loss (Income)

The Company's loss for the year ended December 31, 2020 was $(5,053,322) compared to a loss of $(6,946,846) for the year ended December 31, 2019. The Company anticipates further improvement in losses throughout 2021 due to the increase in new leasing activity, curtailment of excess equipment sales, significant cost reduction initiatives and the absence of costs related to the reverse acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company's liquidity needs are primarily to finance growth initiatives including equipment acquisition, leasing activities, debt service and for general corporate purposes. The Company's primary source of liquidity to date has been funds generated by private financing via convertible debentures and term loans. The Company has been generating revenue from operations since the third quarter of 2018. The Company's ability to fund its operations, make planned capital expenditures, satisfy scheduled debt payments and repay or refinance indebtedness depends on the Company's future operating performance and cash flows. These cash flows are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control (see "*Financial Instruments and Financial Risk Management*").

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout Canada and the United States. The spread of COVID-19 has caused significant volatility in Canadian, U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the Canadian, U.S. and international economies and, although the Company has not experienced any material impact on its operations to date, the Company is unable to determine if it will have a future material impact to its operations or ability to raise funds.

As of December 31, 2020, the Company had $545,990 of cash, working capital (deficit) (current assets minus current liabilities) of $(2,079,684) and an accumulated deficit of $(18,639,943) compared with $2,487,293 of cash, working capital of $1,802,038 and an accumulated deficit of $(13,586,621) as of December 31, 2019. The decrease in working capital by $(3,881,722) was primarily attributable to the increase in trade payables and accrued equipment purchases related to new financing leases as well as the ongoing funding of operations. The increase in accumulated deficit $(5,053,322) was primarily attributable to the funding of operations and non-cash charges related to the realized and unrealized losses on the fair value change of the KushCo investment, amortization of debt issuance costs and discounts and non-cash compensation.

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.

Cash Flows

The following table sets forth the primary sources and uses of cash for the year ended December 31, 2020 and 2019:

	Year ended December 31,			
	2020		**2019**	
Cash flows (used in) operating activities	$	(3,476,187)	$	(3,458,029)
Cash flows provided by investing activities	$	1,347,226	$	1,565,433
Cash flows provided by financing activities	$	205,762	$	3,870,426

Cash Flow from Operating Activities

Net cash used in operating activities for the year ended December 31, 2020 was $(3,476,187) primarily due to a (i) loss for the period of $(5,053,322) and (ii) the change in non-cash working capital items related to financing leases of $(2,251,667). The above decreases were offset in part by non-cash adjustments of $3,423,377 including realized and unrealized losses on mark-to-market fair value change of investments, accretion of debt issuance costs and discounts, depreciation and non-cash incentive compensation.

Net cash used in operating activities for the year ended December 31, 2019 was $(3,458,029) primarily due to a loss for the period of $(6,946,846), offset in part by non-cash adjustments of $3,884,243 including issuance of warrants and debentures for services, accretion of debt issuance costs and discounts, impairment losses, listing expense, depreciation, amortization, non-cash compensation and incentive compensation, partially offset by a gain on sale of servicing equipment, recognition of non-cash lease income, addition of servicing equipment for finance leases and changes in fair value of derivative liabilities.

Cash Flow from Investing Activities

Net cash provided by investing activities for the year ended December 31, 2020 of $1,347,226 was attributable to (i) $993,890 and $605,205 of proceeds received from the sale of investments and equipment, respectively, offset by $(251,869) of equipment purchases.

Net cash provided by investing activities for the year ended December 31, 2019 of $1,565,433 was attributable to $698,858 of cash acquired as part of the reverse acquisition with Caracara and proceeds of $867,755 received from the sale of plant and equipment, offset in part by $(1,180) for the purchase of property and equipment.

Cash Flow from Financing Activities

Net cash provided by investing activities for the year ended December 31, 2020 was $205,762 and was attributable to $805,762 of proceeds received from the Company’s line of credit ($750,000) and from the U.S. government’s Paycheck Protection Program (“PPP”) via the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act loan borrowings ($55,762) partially offset by $600,000 repayment of the Company’s term loan with a related party.

Net cash provided by financing activities for the year ended December 31, 2019 was $3,870,426 and consisted primarily of proceeds from loans and borrowings, specifically Sub Receipt debentures of $4,472,085 and term loans of $1,100,000, offset in part by the repayment of the $1,100,000 of term loans and payment of debt issuance and deferred financing costs.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company may be subject to contractual obligations to make future payments in relation to contracts or other financial commitments. As of December 31, 2020, the Company is not aware of any legal or financial contractual obligations or financial commitments outside of its loans and borrowings and related party management services agreement.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company has no material undisclosed off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources that are material to investors.

RELATED PARTY TRANSACTIONS

Related parties include officers and employees of the Company that are investors, debt holders and the Company’s former provider of servicing equipment.

Key Management and Personnel

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

	Year ended December 31,	
	2020	**2019**
Salaries, contractor costs, management fees and benefits	$ 668,508	$ 473,475
Incentive compensation (non-cash)	63,385	371,374
	$ 731,893	$ 844,849

Related Party Loans and Borrowings

As of December 31, 2020 and 2019, the Company had loans and borrowings due to Archytas of $nil and $600,000, respectively. In December 2020, the term loan was repaid in full. In January, February, March and April 2019, the Company received additional funding of $1,100,000 in the form of the 2019 term loans from Archytas with maturity dates ranging from September 2019 to February 2020 (Note 16). In November 2019, the Company repaid Archytas the 2019 term loans in full.

Related Party Transactions and Amounts Due to Related Parties

The following table presents expenses incurred on behalf of the Company by Archytas and assets purchased from Khrysos:

Amounts due to related parties at December 31, 2018	$	118,654
Interest expense		262,457
Management fee		346,401
Operating expenses		90,225
Prepaid equipment purchases		283,228
Conversion of accrued interest to comon stock		(15,713)
Less payments to related parties		(1,085,252)
Amounts due to related parties at December 31, 2019	$	-
Amounts due to related parties at December 31, 2019	$	-
Interest expense		86,129
Management fee		146,200
Management fee bonus		255,000
Operating expenses		1,486
Less payments to related parties		(232,329)
Amounts due to related parties at December 31, 2020	$	256,486

Related Party Purchase Commitments

The Company had the option to purchase extraction equipment from Khrysos, and in the past, did so under mutual exclusivity that required minimum purchases to remain in effect. However, throughout 2019, the Company expanded its range of product offerings to include other vendors in order to provide tailored, end-to-end solutions for customers, and accordingly no longer maintained the mutual exclusivity. The mutual exclusivity arrangement called for a temporary price increase of 5% until such time the Company had $16,000,000 (equivalent of $800,000) of cumulative equipment purchases from Khrysos. In November 2019, the Company and Khrysos entered into an agreement that released the Company for any obligations associated with the purchase commitment in exchange for the Company returning previously purchased servicing equipment.

Related Party Management Services Agreement

Effective January 2019, the Company entered into a management services agreement with Archytas at a monthly rate of $28,667 and a term of five years, with one-year automatic renewals, whereby Archytas will provide day-to-day executive management and support to the Company. Archytas is a shareholder of the Company, having been involved in the initial formation of XSI. In addition, two officers and directors of the Company are partners of Archytas. In May and June 2020, the Company lowered the monthly rate to $20,067 as part of a 30% cost reduction to the Company's management team, employees and external consultants in exchange for the issuance of stock options. In June 2020 the management services agreement was amended to reduce the monthly rate to $nil for July, August, and September 2020. In December 2020, the management services agreement was amended to adjust the form of compensation to common stock for October, November and December 2020. As a result, the Company issued 600,855 of common shares to Archytas, and recorded $86,000 of management fee expense, for the year ended December 31, 2020. In March 2021, the Company authorized the issuance of 1,071,255 common shares and accrued $255,000 of management fee expense as a bonus for 2020 services. The agreement cannot be terminated until Archytas holds less than 5% of the fully diluted capital stock of the Company. As at December 31, 2020 and 2019, Archytas held 19.4% and 25.5%, respectively of outstanding voting shares of the Company.

In conjunction with entering into this agreement the Company's CEO and COO terminated their employment agreements with the Company. Additionally, Archytas will receive a fee for services provided on a successful acquisition, merger or change of control of the Company valued at 2% of the enterprise value of such transaction.

The Company is party to certain management contracts. These contracts require payments of $746,000 upon the occurrence of a change in control of the Company, as defined by each officer's respective consulting agreement. As a triggering event has not taken place, the contingent payments have not been reflected in the audited consolidated financial statements.

Related Party Sales

In March and April 2019, the Company entered into rental lease agreements to lease extraction machines and other ancillary processing equipment to Carolina Botanical Development, LLC ("CBD LLC"). CBD LLC is a related party to the Company as a result of a shareholder of the Company also being an owner of CBD LLC. As part of the March 2019 lease agreement, CBD LLC paid $100,000 owed to a related party of the Company, on behalf of the Company. As of December 2020, both lease arrangements are completed.

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New standards adopted

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In October 2018, IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The interpretation is effective for annual periods beginning January 1, 2020. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standards for IAS 1 and IAS 8.

IFRS 3, Business Combinations

In October 2018, IFRS 3 – Business Combinations ("IFRS 3") was amended to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The interpretation is effective for annual periods beginning January 1, 2020. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standard for IFRS 3.

New standards and interpretations to be adopted in future periods

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

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

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets ("IAS 37") was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022. Earlier adoption is permitted. The Company will adopt these amendments as of their effective date, and is currently assessing the impacts on adoption.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Depreciation and Amortization of Servicing Equipment, Property and Equipment, and Intangible Assets and Estimate of Useful Lives

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

Long-Lived Assets and Impairment

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

Share-based Incentive Compensation

The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. The assumptions and models used for estimating fair value for share-based payment transactions is disclosed in Note 21 of the Company's financial statements. The expected volatility assumptions for the Company's option and warrant grants are based on both the Company's and comparable companies volatility.

Derivative Liabilities

Derivative liabilities are initially recognized at fair value on the date entered into 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 other expense (income) in the condensed consolidated statements of loss and comprehensive loss. The fair value of the derivative liabilities are subject to measurement uncertainty due to the assumptions made for the inputs in the Black-Scholes option valuation.

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 is subject to measurement uncertainty.

Functional Currency Determination

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

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

Determination of Discount Rates

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

Determination of Financing Lease or Operating Lease

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

Expected Credit Losses

<u>Allowance for credit losses</u>

The Company measures loss allowances based on an expected credit loss ("ECL") impairment model for all financial instruments except those measured at fair value through profit and loss. Application of the model depends on the following credit stages of the financial assets:

(i) Stage 1 - for new leases recognized and for existing leases that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months;
(ii) Stage 2 - for those leases that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected over the remaining life of the lease; and
(iii) Stage 3 - for leases that are considered to be credit-impaired, a loss allowance equal to full life time ECLs is recognized.

Thus, the evaluation of the allowance for credit losses is performed on a lease by lease basis. Definitions of default have been selected to eliminate the judgement that may otherwise be necessary, given the diversity within the finance receivable portfolio, the lack of individual drivers of changes in credit risk across assets and over time, and the resulting inability to assess which specific assets will be rectified. For the purposes of measuring ECL, a default is defined as leases and loans that have missed one payment and are not subsequently rectified within 60 days.

The Company is entitled to repossess financed equipment if the borrower defaults on their lease obligations. Any amounts recovered from the sale of repossessed equipment are credited to the allowance for credit losses when received.

The process of estimating ECLs uses the following inputs and assumptions to reflect information about past events, current conditions and forecasts of future conditions that are not already captured in the inputs:

- Recoveries of amounts previously written off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects of natural disasters and economic shocks that have occurred on credit losses in the next 12 months;

- The stage of the business cycle for the industry, which considers: the competitive environment, GDP growth, prevailing interest rates and expectations of future rates, fiscal policy and inflation rates; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

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

Definition of a Business

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

Income, Value Added, Withholding and Other Taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company is also subject to tax regulations as they relate to flow-through financing arrangements. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company categorizes its financial assets and liabilities measured and reported at fair value in the financial statements on a recurring basis based upon the level of judgments associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs used to determine the fair value of financial assets and liabilities, are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

Each major category of financial assets and liabilities measured at fair value on a recurring basis is categorized based upon the lowest level of significant input to the valuations. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Financial Risk Management

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

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash, trade and other receivables and financing receivables. The Company does not have significant credit risk with respect to customers. All cash is placed with recognized U.S. financial institutions. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. The Company has not recognized any loss allowance for expected credit losses on the trade and other receivables and financing receivables as of December 31, 2020.

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

Liquidity Risk

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

At December 31, 2020, the Company had current assets of $2,396,344 and current liabilities of $4,476,028. All current liabilities are due within one year.

At December 31, 2020, the Company also has the following obligations due:

	Less than 6 months	6 months to 1 years	1 to 3 years	Over 3 years
Trade and other payables	$ 2,264,139	$ -	$ -	$ -
Accrued expenses	1,149,641	-	-	-
Loans and borrowings (1)	-	-	805,762	4,304,721
	$ 3,413,780	$ -	$ 805,762	$ 4,304,721
Commitments	-	-	-	-
Balance at December 31, 2020	$ -	$ -	$ -	$ -

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

Market Risk

Currency Risk

The Company has determined its functional currency to be the Canadian dollar and U.S. dollar. The operating results and financial position of the Company are reported in U.S. dollars. The Company has minimal financial transactions denominated in currencies other than the Canadian and U.S. dollar. The

Company has no hedging agreements in place with respect to foreign exchange rates. The following table presents financial instruments in CAD currency subject to currency risk:

	December 31, 2020		December 31, 2019	
Tax receivable	$	8,836	$	53,345
Trade payable	$	69,128	$	50,070
Loans and borrowings (1)	$	5,668,000	$	5,721,000

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

Interest Rate Risk

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

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is exposed to equity price risk associated with changes in the market value of its investments. The Company closely monitors equity prices to determine the appropriate course of action to be taken. A 10% change in the quoted market of investments would result in a change of approximately $32,000 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2020.

Disclosure Controls and Procedures

The Company's management, with the participation of its President and CEO and CFO, have evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the certifying officers have concluded that, as of the end of the year covered by this report, the disclosure controls and procedures effectively provide reasonable assurance that information required to be disclosed, in reports the Company is required to file or submit under Canadian securities laws, was recorded, processed, summarized and reported within the appropriate time periods specified by those laws. The Company's certifying officers, being the President and CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and procedures. The certifying officers also concluded that material information was accumulated and communicated to management of the Company, including the President and CEO and the CFO, as appropriate to allow timely decisions regarding disclosure.

Internal Controls over Financial Reporting

The Company's President and CEO, and the CFO are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the President and CEO and the CFO, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes, in accordance with IFRS. The Company's internal control over financial reporting includes policies that:

- pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the consolidated financial statements in accordance with IFRS and that the Company's receipts and disbursements are made only in accordance with authorizations of management and the Company's Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

The Company's management believes that its policies and procedures provide the best controls achievable under the constraints described above, subject to the limitations below.

Limitation of Controls and Procedures

The Company's management including the President and CEO and the CFO believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. The inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can be circumvented by the individual acts of some persons, by collusion of two or more individuals or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and therefore there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Accounting Responsibilities, Procedures and Policies

The Board of Directors, which among other things is responsible for the consolidated financial statements of the Company, delegates to management the responsibility for the preparation of the consolidated financial statements. Responsibility for their review rests with the Audit Committee. Each year the shareholders appoint independent auditors to audit and report directly to them on the consolidated financial statements.

The Audit Committee is appointed by the Board of Directors and all of its members are non-management directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues, and to confirm that all administrative duties and responsibilities are properly discharged. The Audit Committee also reviews the consolidated financial statements and MD&A and considers the engagement or reappointment of external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when approving the consolidated financial statements for issuance to the shareholders. The external auditors have full and free access to the Audit Committee.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain "forward-looking information" as defined in applicable securities laws. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking in nature. The forward-looking information in this MD&A speak only as of the date of this MD&A or as of the date specified in such statements.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 33,327,724 common shares, 23,107 proportionate voting shares, 7,375,077 warrants and 4,685,583 stock options issued and outstanding.

SUBSEQUENT EVENTS

Syndication Platform and Issuance of Note payable

In February 2021, the Company launched its syndication platform and entered into six separate promissory note agreements with a third-party lender totaling $1,000,000 with maturity dates ranging from June 2024 to December 2024. The promissory notes bear interest at a rate of 12% per annum, payable monthly. Each promissory note is secured by the lease payment streams and the underlying equipment of certain finance leases the Company has entered into with customers.

Private placement issuance

In February and March 2021, the Company received gross proceeds of approximately $10,700,000, including approximately $1,250,000 from Archytas, net of issuance costs of approximately $785,000, from the issuance of 39,259,731 units at a price $0.30CAD ($0.24) and 5,251 proportionate voting units at a price $300CAD ($238). Each unit consists of one common share and one warrant. The warrants to be received have an exercise price of a $0.45CAD ($0.36) and $450CAD ($360) for the units and proportionate voting units, respectively, and have a two-year term.

In connection with the private placement the Company issued an additional 2,353,400 warrants to brokers and agents which entitled the holder to acquire one unit at a price of $0.30CAD ($0.24) for a period of two years from the date of issuance, and an aggregate of 1,450,000 units in satisfaction of a corporate finance fee. Each unit consists of one common share and one warrant. The warrants to be received have an exercise price of a $0.45CAD ($0.36) and have a two-year term.

Share issuance

In March 2021, the Company issued 1,988,891 common shares at share prices ranging between $0.30CAD ($0.24) and $0.37CAD ($0.30), based on the value of the services provided, to consultants and a related party (Archytas) (Note 22), as consideration for services performed.

Stock option grant

In March 2021, the Company granted 1,880,180 of options to employees, directors and consultants of the Company with an exercise price of $0.33CAD ($0.26). The options have a term of five years, with vesting terms either immediately or over three years.