XS Financial Inc.

Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in United States Dollars)

XS Financial Inc.

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Independent Auditors' Report

Board of Directors and Shareholders
XS Financial, Inc.

Opinion

We have audited the consolidated financial statements of XS Financial, Inc. and its subsidiaries (the Company), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies ("the financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Substantial Doubt about the Company's Ability to Continue as a Going Concern – See also Key Audit Matters Section Below

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and accumulated deficits at December 31, 2023 along with loans and borrowings coming due during the calendar year 2024 (Note 12). These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and have fulfilled our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit, which include relevant ethical requirements of the International Ethics Standards for Accountants' *Code of Ethics for Professional Accountants*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statement for the year ended December 31, 2023. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditors' opinion thereon, and we do not provide a separate opinion on these matters.

Financing Receivable (Note 7) and Related Revenue (Note 4)

During the year ended December 31, 2023, the Company entered into financing leases with multiple customers resulting in financing income on financing leases of $11,503,920 for the year ended December 31, 2023. The carrying value of the financing receivables on the Company's consolidated financial statements was $83,719,443.

We consider this a key audit matter due to the magnitude of the balance and the judgment made by management in determining the net value of such receivables, which in turn led to increased audit effort in performing audit procedures.

How is this audit matter addressed in the Audit

We reviewed the underlying contracts and recalculated balances of financing receivables and the related revenue for a sample of leases. We additionally sent out confirmations and vouched subsequent receipts on a sample of financing receivables. Additionally, we evaluated the financing receivables for any potential impairment and the appropriateness of the method of valuation.

Going Concern (Note 1) – See Going Concern Uncertainty expalnatory paragraph above

As described further in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and does not have an established source of revenues sufficient to cover its operating costs. The ability of the Company to continue as a going concern is dependent on executing its business plan and ultimately to attain profitable operations. Accordingly, the Company has determined that these factors raise substantial doubt as to the Company's ability to continue as a going concern for a period of one year from the issuance of these financial statements. Management intends to continue to fund its business by way of public or private offerings of the Company's stock or through loans from private investors, in order satisfy the Company's obligations as they come due for at least one year from the financial statement issuance date. However, the Company has not concluded that these plans alleviate the substantial doubt related to its ability to continue as a going concern.

How is this matter addressed in the Audit

We determined the Company's ability to continue as a going concern is a key audit matter due to the estimation and uncertainty regarding the Company's available capital and the risk of bias in management's judgments and assumptions in their determination. Our audit procedures related to the Company's assertion on its ability to continue as a going concern included the following, among others:

We performed testing procedures such as analytical procedures to identify conditions and events that indicate that there could be substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time. We reviewed and evaluated management's plans for dealing with adverse effects of these conditions and events. We inquired of Company management and reviewed company records to assess whether there are additional factors that contribute to the uncertainties disclosed. We assessed whether the Company's determination that there is substantial doubt about its ability to continue as a going concern was adequately disclosed.

Accounting for Embedded Derivative Liabilities Related to Convertible Debentures (Note 12)

As described in Note 12 to the financial statements, the Company had convertible debentures that required accounting considerations and significant estimates.

The Company determined that variable conversion features issued in connection with certain convertible debentures required derivative liability classification. These variable conversion features were initially measured at fair value and subsequently have been remeasured to fair value at each reporting period. The Company determined the fair value of the embedded derivatives using the Black-Scholes-Merton option pricing model. The value of the embedded derivative liabilities related to the convertible debentures was $617,850 at December 31, 2023.

We identified the accounting considerations and related valuations, including the related fair value determinations of the embedded derivative liabilities of such as a key audit matter.

How is this matter addressed in the Audit

Our audit procedures related to the Company's accounting considerations and significant estimate included the following, among others:

We reviewed the accounting considerations made by the Company in determining the nature of the various features. We evaluated of the potential derivatives and potential bifurcation in the instruments. We evaluated the determination of the fair value of the various debt and equity instruments and the conversion features that include valuation models and assumptions utilized by management against current accounting guidance. We tested the mathematical accuracy of management's calculations related to the estimate.

Auditing these elements is especially challenging and requires auditor judgement due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued, and to use the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with ISAs, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit of the Company. We remain solely responsible for our audit opinion.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matter

The consolidated financial statements for XS Financial, Inc. as of and for the year ended December 31, 2022, were audited by other auditors in accordance with Canadian generally accepted auditing standards, whose report dated April 25, 2023, expressed an unmodified opinion on these consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor's report is David Ritzert.

Urish Popeck + Co., LLC

Urish Popeck & Co., LLC

Pittsburgh, PA
April 26, 2024

XS Financial Inc.
Consolidated statements of loss and comprehensive loss
For the years ended December 31, 2023 and 2022
(Expressed in United States dollars)

	Note	Year Ended December 31, 2023	2022
Revenue	4	$ 11,675,203	$ 7,567,473
Operating expenses			
Administrative expenses	5	5,529,197	5,220,520
Sales and marketing expenses	5	301,561	409,636
Gain from operations		5,844,445	1,937,317
Financing expense, net	12	7,387,979	4,866,565
Accretion expense	12	3,972,856	3,881,943
Unrealized loss in fair value change of investments	6	1,051	84,491
Change in fair value of derivative liabilities	12,13	(194,279)	(3,406,236)
Other expense	5	1,183,857	2,816,042
Loss before income tax		(6,507,019)	(6,305,488)
Income tax	15	-	-
Net loss		$ (6,507,019)	$ (6,305,488)
Other comprehensive loss			
Items that will subsequently be reclassified to operations:			
Unrealized gain on foreign currency translation		474,140	2,487,495
Comprehensive loss		$ (6,032,879)	$ (3,817,993)
Loss per share - basic and diluted		$ (0.06)	$ (0.06)
Weighted average shares outstanding:			
Basic and diluted		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 consolidated financial statements.

XS Financial Inc.
Consolidated statements of financial position
As of December 31, 2023 and 2022
(Expressed in United States dollars)

	Note	December 31, 2023	2022
Assets			
Current assets			
Cash		$ 153,830	$ 1,040,932
Investments	6	230	1,281
Financing receivables, short-term	7	28,204,723	22,763,720
Prepaid and other current assets	8	213,291	196,796
Total current assets		28,572,074	24,002,729
Non-current assets			
Servicing and property equipment	9	4,929	20,376
Financing receivables, long-term	7	55,514,720	64,328,225
Total non-current assets		55,519,649	64,348,601
Total assets		$ 84,091,723	$ 88,351,330
Shareholders' equity and liabilities			
Current liabilities			
Loans and borrowings, short-term	12	$ 74,853,157	$ 66,323,801
Trade and other payables	10	690,639	2,468,341
Accrued expenses	11	4,426,564	6,369,637
Warrant derivative liabilities	13	42,928	346,207
Embedded derivative liabilities	12	617,850	518,000
Total current liabilities		80,631,138	76,025,986
Non-current liabilities			
Loans and borrowings, long-term	12	-	4,759,733
Total non-current liabilities		-	4,759,733
Total liabilities		80,631,138	80,785,719
Shareholders' equity			
Share capital	14	21,158,842	21,158,842
Reserves		12,173,737	10,245,884
Conversion feature - debentures		930,697	930,697
Accumulated other comprehensive income		3,635,180	3,161,040
Accumulated deficit		(34,437,871)	(27,930,852)
Total shareholders' equity		3,460,585	7,565,611
Total shareholders' equity and liabilities		$ 84,091,723	$ 88,351,330

Nature of operations and background information (Note 1)
Contingencies (Notes 12 and 18)
Subsequent events (Note 21)

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

XS Financial Inc.
Consolidated statements of changes in shareholders' equity
For the years ended December 31, 2023 and 2022
(Expressed in United States dollars)

	Note	Number of Common Shares	Number of Proportionate Common Shares	Share Capital	Reserves	Conversion feature for debentures	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
Balance at December 31, 2021		75,526,443	28,358	$ 21,158,842	$ 8,279,809	$ 930,697	$ 673,545	$ (21,625,364)	$ 9,417,529
Share-based incentive compensation	16	-	-	-	1,966,075	-	-	-	1,966,075
Net loss and comprehensive loss		-	-	-	-	-	2,487,495	(6,305,488)	(3,817,993)
Balance at December 31, 2022		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	14	2,201,601	(2,202)	-	-	-	-	-	-
Share-based incentive compensation	16	-	-	-	1,927,853	-	-	-	1,927,853
Net loss and comprehensive loss		-	-		-	-	474,140	(6,507,019)	(6,032,879)
Balance at December 31, 2023		77,728,044	26,156	$ 21,158,842	$ 12,173,737	$ 930,697	$ 3,635,180	$ (34,437,871)	$ 3,460,585

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

XS Financial Inc.
Consolidated statements of cash flows
For the years ended December 31, 2023 and 2022
(Expressed in United States dollars)

	Note	Year ended December 31, 2023	2022
Cash flows from operating activities			
Net loss for the year		$ (6,507,019)	$ (6,305,488)
Adjustments to reconcile loss to net cash flows:			
Depreciation and amortization	9	15,447	17,131
Unrealized loss on investments	6	1,051	84,491
Change in fair value of derivative liabilities	12,13	(194,279)	(3,406,236)
Loss (gain) on debt extinguishment	12	(433,146)	134,350
Gain on lease termination	5,7	(130,041)	(40,559)
Loss on debt modification	12	1,265,004	-
Share-based incentive compensation expense	16	1,927,853	1,966,075
Interest expense paid in kind	12	923,881	723,516
Accretion expense	12	3,972,856	3,881,943
		841,607	(2,944,777)
Change in working capital items:			
Financing receivables	7	3,502,543	(52,092,152)
Prepaid and other current assets	8	(16,495)	(81,699)
Trade and other payables	10	(1,777,702)	1,047,737
Accrued expenses	11	(1,943,073)	3,400,951
Net cash flows provided by (used in) operating activities		606,880	(50,669,940)
Cash flows from investing activities			
Purchases of servicing and property equipment	9	-	(10,121)
Net cash flows (used in) investing activities		-	(10,121)
Cash flows from financing activities			
Proceeds from the issuance of convertible notes	12	-	10,000,000
Proceeds from loans and borrowings	12	31,790,000	42,042,955
Repayment of loans and borrowings	12	(28,037,242)	(19,100,333)
Repayment of convertible notes	12	(5,343,259)	-
Payment of debt financing and issuance costs	12	(377,621)	(828,185)
Net cash flows provided by (used in) financing activities		(1,968,122)	32,114,437
Effect of exchange rate changes on cash		474,140	2,487,530
Net (decrease) in cash		(887,102)	(16,078,094)
Cash at beginning of the period		1,040,932	17,119,026
Cash at end of the period		$ 153,830	$ 1,040,932
Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 6,275,832	$ 4,078,705
Non-cash investing and financing activities			
Issuance of warrant derivative liabilities	13	-	161,056
Issuance of embedded derivative liabilities	12	-	1,231,000

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

(1) Nature of operations and background information

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

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

The accompanying consolidated financial statements have been approved by the Company's board of directors and are authorized for issuance as of April 26, 2024.

Basis of presentation

Statement of compliance

These 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 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 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 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 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 consolidated financial statements have been prepared using the accrual basis of accounting.

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 consolidated financial statements and their effect are disclosed in Note 3 below.

Going concern

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 $34,437,871 and $27,930,852 as of December 31, 2023, and December 31, 2022, respectively. The Company has a working capital deficit of approximately $(52,000,000) as of December 31, 2023 primarily a result of loans and borrowings in excess of approximately $75,000,000 due in the calendar year 2024 (Note 12). 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 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.

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.

(2) Significant accounting policies

Cash

The Company's cash consists of immediately available fund balances and is maintained at recognized US and Canadian banks. Funds maintained at US banks are insured through the FDIC. The Company maintained no cash equivalents as of December 31, 2023, and 2022.

Investments

Investments consist of marketable securities received in exchange for proportionate voting shares related to a strategic partnership and cooperation agreement (Note 6). The investments were initially recognized at fair value and are subsequently remeasured at fair value with any changes recorded as an unrealized gain or loss in the consolidated statements of loss and comprehensive loss. Any gain or loss on the disposal of investments is recorded as a realized gain or loss in the consolidated statements of loss and comprehensive loss.

Financing receivables

Financing 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. As of December 31, 2023, and 2022 the Company had no allowances for expected credit losses.

Servicing and property equipment

Servicing and property equipment is stated at the aggregate cost incurred to acquire and place the assets in service. Expenditures for routine maintenance and repairs are charged to expense as incurred and costs of improvements and renewals are capitalized.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method when the assets are available for use. Depreciation of servicing and property equipment is included in administrative expenses in the consolidated statements of loss and comprehensive loss. Estimated useful lives have been determined as follows:

	Estimated useful lives
Computers	3 years
Machinery and equipment	5 years
Servicing equipment	5 years

Long-lived assets

Long-lived assets, such as servicing and property equipment, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company estimates its recoverable amount. An impairment loss is recognized to the extent the carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or cash –generating units. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Revenue recognition

The Company's revenue is derived from providing financing for equipment and other qualified capital expenditures to cannabis companies, including cultivators, processors, manufacturers and testing laboratories. The products and services offered by the Company include the financing for the lease of equipment and processes.

The Company recognizes revenue using the following five step model to analyze revenue transactions:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

Leasing arrangements

Interest revenue on finance leases and loans is recognized using the effective interest rate method. Ancillary finance and other fee income is recognized when earned. Each lease is classified as either a financing lease or operating lease. If a lease meets one or more of the criteria listed below and both the collectability of the minimum lease payments is reasonably predictable and there are no material uncertainties surrounding the amount of un-reimbursable costs yet to be incurred, the lease is classified as a financing lease; otherwise, it is classified as an operating lease:

- The lease transfers ownership of the asset to the customer by the end of the lease term.
- The customer has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date that the option will be exercised.
- The lease term is for the major part of the economic life of the asset even if title is not transferred.
- At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the asset.
- The asset is of such a specialized nature that only the customer can use it without major modifications.

The Company recognizes a finance lease when it transfers substantially all the risks and rewards incidental to ownership of the underlying servicing equipment to the customer. Financing income is separated from the contract, computed at the customer's incremental borrowing rate for equipment. When contracts contain non-lease components such as maintenance, professional services and or other deliverables, the Company separates and allocates transaction price to those individual components.

A lease in which the Company purchases assets from a customer that are controlled by the customer prior to entering into a lease agreement with the Company and which contains a bargain purchase option for the customer is determined to be a failed sale-leaseback. Similar to a finance lease the financing income is separated from the contract, computed at the customer's incremental borrowing rate for equipment. The Company completed 7 and 10 failed sale-leaseback transactions in the years ended December 31, 2023, and 2022, respectively, which totaled approximately $27,294,000 and $21,422,000 of the financing receivables as of December 31, 2023, and 2022, respectively.

A lease that does not transfer substantially all the risks and rewards incidental to the ownership of the asset, is determined to be an operating lease.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset, and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Financial assets and liabilities at fair value through profit or loss ("FVTPL"): A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of loss and comprehensive loss in the year in which they arise. The Company has investments classified as FVTPL.

b) Receivables: Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's receivables comprise trade, financing, and other receivables and are initially recognized at fair value. Subsequently, receivables are measured at amortized cost using the effective interest method less a provision for impairment.

   The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments (including all fees and points paid or received that form and integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

c) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and other payables, accrued expenses, amounts due to related parties and loans and borrowings, which include the term loans and the underlying debenture component of the convertible debentures. Financial liabilities are initially recognized at fair value, net of directly attributable transaction costs.

d) Compound financial instruments are initially measured at fair value less transaction costs directly attributable to its issue.

   The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity component such as a conversion option. The equity component is initially recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

   Where the currency of the conversion price of a conversion option is different than the functional currency of the legal entity in which they were issued and when the conversion price of convertible debt is not fixed, the conversion option component is accounted for as a derivative liability. For the Company's conversion options denominated in Canadian dollars where the Company's functional currency was in U.S. dollars and for the Company's conversion options for convertible debt in which the conversion price is not fixed, the conversion option component is accounted for as a derivative liability, which is measured at fair value using the Black-Scholes and Binomial Lattice valuation models, respectively. In these cases, the liability component of a compound financial instrument is recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the conversion option component. Any directly attributable transaction costs are allocated to the liability and conversion option components in proportion to their initial carrying amounts. Costs allocated to the derivative liability conversion feature are expensed on initial recognition.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The conversion option component classified as a derivative liability is subsequently revalued every reporting period using market-based valuation techniques. Gains and losses from changes in fair value are recorded in the consolidated statements of loss and comprehensive loss.

Interest related to the convertible debentures is recognized in the consolidated statements of loss and comprehensive loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

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 in the consolidated statements of loss and comprehensive loss.

Fair value of financial instruments

The Company categorizes its financial assets and liabilities measured and reported at fair value in the consolidated 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 that are accessible at the measurement date for identical, unrestricted assets or liabilities
- *Level 2*: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liabilities
- *Level 3*: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity)

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.

Company's management assessed that cash, financing and other receivables, trade and other payables, accrued expenses, and amounts due to related parties approximate their carrying amounts largely due to the short-term maturities of these instruments. There is no organized market for the finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.

(Expressed in United States Dollars)

The warrant derivative liabilities were valued at fair value using a Black-Scholes model (Note 13). The embedded derivative liabilities were valued using a Binomial Lattice Model analysis that probability weighted various expected conversion prices (Note 12). 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 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 December 31, 2023:				
Assets:				
Investments (Note 6)	$ 230	$ -	$ -	$ 230
Liabilities:				
Warrant derivative liabilities (Note 13)	$ -	$ -	$ 42,928	$ 42,928
Embedded derivative liabilities (Note 12)	-	-	617,850	617,850
	$ -	$ -	$ 660,778	$ 660,778
As of December 31, 2022:				
Assets:				
Investments (Note 6)	$ 1,281	$ -	$ -	$ 1,281
Liabilities:				
Warrant derivative liabilities (Note 13)	$ -	$ -	$ 346,207	$ 346,207
Embedded derivative liabilities (Note 12)	-	-	518,000	518,000
	$ -	$ -	$ 864,207	$ 864,207

The estimated fair value of the warrant derivative and embedded derivative liabilities would increase or decrease if the expected volatility and conversion price was higher or lower. The following table shows a reconciliation during the years ended December 31, 2023, and 2022 for Level 3 fair values:

(Expressed in United States Dollars)

	Warrant derivative liabilities	Embedded derivative liabilities	Total
Balance at December 31, 2021	$ 1,805,665	$ 1,072,722	$ 2,878,387
Convertible notes conversion option (Note 12)	-	1,231,000	1,231,000
Warrants issued in connection with convertible notes (Note 13)	161,056	-	161,056
Net change in unrealized fair value	(1,620,514)	(1,785,722)	(3,406,236)
Balance at December 31, 2022	$ 346,207	$ 518,000	$ 864,207
Warrants cancelled as a result of convertible notes repurchase (Note 13)	(9,150)	-	(9,150)
Net change in unrealized fair value	(294,129)	99,850	(194,279)
Balance at December 31, 2023	$ 42,928	$ 617,850	$ 660,778

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.

Share-based incentive compensation

The Company accounts for share-based awards in accordance with provisions of *IFRS 2, Share Based Payments*, under which the Company recognizes the grant-date fair value of incentive-based awards issued to employees, consultants and advisors as compensation expense on a graded vesting basis over the vesting period of the award. The Company uses the Black-Scholes option pricing model to determine the grant-date fair value of restricted awards.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Leases

The Company as Lessor

Refer to the revenue recognition policy note.

Foreign currency translation

The functional currency accounts are translated into the presentation currency by translating assets and liabilities at exchange rates in effect at the reporting date. Equity accounts are translated at historical exchange rates. Revenues and expenses are translated at the average exchange rate for the period, if this is considered a reasonable approximate to actual rates, or at the rate on the date of the transaction. Any resulting gain or loss is recorded as a component of other comprehensive loss.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period-end exchange rates are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Income taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases.

Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Company had no uncertain tax positions for the years ended December 31, 2023, and 2022.

Earnings per share

Basic loss per share is computed by dividing the loss by the weighted average number of shares outstanding during the period. Diluted loss per share is computed by dividing the loss by the weighted average number of shares and other dilutive instruments outstanding during the period. For the periods presented, the effect of the dilutive instruments on loss per shares would be anti-dilutive, therefore, basic loss per share equals diluted loss per share.

New standards and interpretations recently adopted

Effective January 1, 2023, the Company adopted the amended *IAS 1 – Presentation of Financial Statements (“IAS 1”).* The amendment provides a more general approach to the classification of liabilities under *IAS 1* based on the contractual arrangements in place at the reporting date and clarifies that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendment also clarifies that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standard for *IAS 1*.

New standards and interpretations not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2024. 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 7 – Cash Flow Statements ("IAS 7") and *IFRS 7 Financial Instruments ("IFRS 7*") were amended in May 2023 to require 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 amendments are effective for annual periods beginning on January 1, 2024. The Company will adopt these amendments as of the effective date and are currently assessing the impact on adoption.

(3) Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in Note 2 above, the Company's management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these assumptions.

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

Depreciation of Servicing and Property Equipment and Estimate of Useful Lives

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

Long-Lived Assets and Impairment

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

Share-based Incentive Compensation

The Company determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. The assumptions and models used for estimating fair value for share-based payment transactions is disclosed in Note 16. The expected volatility assumptions for the Company’s option and warrant grants are based on both the Company’s and comparable companies’ volatility.

Derivative Liabilities

Derivative liabilities are initially recognized at fair value on the date entered and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognized immediately as a component of the change in fair value of derivative liabilities line item in the consolidated statements of loss and comprehensive loss. The fair value of the derivative liabilities is subject to measurement uncertainty due to the assumptions made for the inputs in the valuation models. See Notes 12 and 13.

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 12.

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.

Contingencies

See Note 12 and 18.

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.

(4) Revenue

The following table presents a disaggregation of revenue by source:

(Expressed in United States Dollars)

	Year ended December 31,	
	2023	**2022**
Revenue source:		
Financing income on financing leases (Note 7)	$ 11,503,920	$ 7,480,996
Other revenue	171,283	86,477
	$ 11,675,203	$ 7,567,473

Revenue concentration

All of the Company's revenue is derived from customers in the United States with three customers representing 30%, 18%, and 11% of the Company's recognized revenue for the year ended December 31, 2023, and 38%, 23% and 17% for the year ended December 31, 2022.

(Expressed in United States Dollars)

(5) Expenses by nature

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

	Year ended December 31,	
	2023	2022
Administrative expenses:		
Compensation and benefits	$ 2,267,657	$ 1,678,815
Share-based incentive compensation	1,927,853	1,966,075
Contractors and outside services	155,421	368,731
Professional fees	489,550	628,998
Travel, meals and entertainment	49,604	56,957
Insurance	109,659	176,548
Depreciation expense	15,447	17,131
Other expenses	514,006	327,265
	5,529,197	$ 5,220,520
Sales and marketing expenses:		
Compensation and benefits	$ 280,448	$ 366,144
Advertising and marketing	17,449	43,277
Other expenses	3,664	215
	$ 301,561	$ 409,636
Other expense:		
Loss (gain) on foreign currency translation	$ 490,260	$ 2,494,212
Loss (gain) on debt extinguishment	(433,146)	370,111
Loss on debt modification	1,265,004	-
Gain on lease termination	(130,041)	-
Other income	(8,220)	(48,281)
	$ 1,183,857	$ 2,816,042

(6) Investments

The Company owns shares of Greenlane Holdings, Inc. ("Greenlane"), a NASDAQ publicly listed company. The shares are recorded as investments on the consolidated statement of financial position. Investments are classified at fair value through profit or loss ("FVTPL"). At December 31, 2023, and 2022 the remaining investment in Greenlane was re-valued at $230 and $1,281, respectively. The Company recorded an unrealized change in fair value, resulting in losses of $1,051 and $84,491 in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2023, and 2022, respectively.

(Expressed in United States Dollars)

(7) Financing receivables

The following table presents financing receivables:

	December 31, 2023	December 31, 2022
Financing receivables, short-term	$ 28,204,723	$ 22,763,720
Financing receivables, long-term	55,514,720	64,328,225
	$ 83,719,443	$ 87,091,945

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

The following table presents a maturity analysis of financing receivables, including the undiscounted lease payments to be received as of December 31, 2023:

2024	$ 37,413,063
2025	28,273,732
2026	20,981,366
2027	8,799,209
2028	2,656,938
Thereafter	6,427,841
Total undiscounted lease payments receivable	104,552,149
Unearned finance income	(20,832,706)
Net investment in lease	$ 83,719,443

Allowance for credit losses

The Company measures loss allowances based on an expected credit loss ("ECL") impairment model for all financial instruments except those measured at FVTPL. As of December 31, 2023, there are no finance receivables past due or impaired and the Company has not recognized and loss allowance for expected credit losses on financing receivables.

Financing receivable concentration

The Company has 32%, and 21% of its financing receivables with two customers as of December 31, 2023, and 38%, 13%, 13% and 11% of its financing receivables with four customers as of December 31, 2022.

(Expressed in United States Dollars)

(8) Prepaid and other current assets

The following table presents prepaid and other current assets:

	December 31, 2023	December 31, 2022
Trade receivable	$ 64,947	$ -
Prepaid insurance	67,557	93,227
Prepaid software costs	-	50,000
Vendor receivable	-	3,333
Canada tax receivable	12,238	18,036
Other	68,549	32,200
	$ 213,291	$ 196,796

(9) Servicing and property equipment

The following table below presents the change in carrying value of the Company's servicing and property equipment during the years ended December 31, 2023, and 2022:

	Computers	Machinery and equipment	Servicing equipment	Total
Cost:				
Balance at December 31, 2021	$ 13,621	$ 3,490	$ 64,825	$ 81,936
Additions	10,121	-	-	10,121
Balance at December 31, 2022	$ 23,742	$ 3,490	$ 64,825	$ 92,057
Balance at December 31, 2023	$ 23,742	$ 3,490	$ 64,825	$ 92,057
Accumulated Depreciation:				
Balance at December 31, 2021	$ (11,023)	$ (2,385)	$ (41,142)	$ (54,550)
Depreciation	(3,421)	(698)	(13,012)	(17,131)
Balance at December 31, 2022	$ (14,444)	$ (3,083)	$ (54,154)	$ (71,681)
Depreciation	(4,369)	(407)	(10,671)	(15,447)
Balance at December 31, 2023	$ (18,813)	$ (3,490)	$ (64,825)	$ (87,128)
Net book value:				
Balance at December 31, 2022	$ 9,298	$ 407	$ 10,671	$ 20,376
Balance at December 31, 2023	$ 4,929	$ -	$ -	$ 4,929

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

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

(Expressed in United States Dollars)

(10) Trade and other payables

The following table presents trade and other payables:

	December 31, 2023	December 31, 2022
Trade payables	$ 690,639	$ 2,453,664
Other payables	-	14,677
	$ 690,639	$ 2,468,341

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

(11) Accrued expenses

The following table presents accrued expenses:

	December 31, 2023	December 31, 2022
Accrued servicing equipment purchases	$ 4,012,681	$ 6,007,434
Accrued interest	246,363	58,096
Accrued professional fees	70,000	105,456
Accrued compensation, commissions, benefits and related taxes	36,364	52,879
Accrued sales tax	56,156	55,680
Accrued other	-	41,206
Unearned revenue	5,000	48,886
	$ 4,426,564	$ 6,369,637

(Expressed in United States Dollars)

(12) Loans and borrowings

The following table presents loans and borrowings outstanding:

Description	Maturity date	Interest rate	December 31, 2023	December 31, 2022
Line of credits:				
Revolving credit facility	August, 2024	9.00%	$ 31,815,000	$ 24,442,955
Term loans:				
Syndication notes	April, 2024 - July, 2025	12.00%	-	3,619,287
Convertible debentures:				
Broker debentures	March, 2024	10.00%	218,869	218,869
Sub Receipt debentures	September, 2024	10.00%	3,952,800	4,059,242
Convertible notes	June, 2024	9.50%	39,560,760	44,340,765
			75,547,429	76,681,118
Less:				
Unamortized discounts, debt issuance costs, financing costs and prepaid offering costs (1)			(694,272)	(5,597,584)
			$ 74,853,157	$ 71,083,534
Non-current			$ -	$ 4,759,733
Current			$ 74,853,157	$ 66,323,801

Note to the table:

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

The following table below shows the change in carrying value of the Company's loans and borrowings during the years ended December 31, 2023, and 2022:

(Expressed in United States Dollars)

	Line of credits	Term loans	Convertible debentures	Debt discounts, issuance costs and deferred financing costs	Total
Balance at December 31, 2021	$ -	$ 5,119,620	$ 37,895,360	$ (7,393,636) (1)	$ 35,621,344
Borrowings	42,042,955	-	-	-	42,042,955
Repayments	(17,600,000)	(1,500,333)	-	-	(19,100,333)
Issuance of convertible notes	-	-	10,000,000	(1,892,056) (2)	8,107,944
Issuance of additional convertible notes as payment for PIK Interest	-	-	723,516	-	723,516
Deferred financing costs	-	-	-	(328,185) (3)	(328,185)
Loss on debt extinguishment	-	-	-	134,350 (4)	134,350
Amortization and accretion of debt discounts, financing costs and debt issuance costs	-	-	-	3,881,943	3,881,943
Balance at December 31, 2022	$ 24,442,955	$ 3,619,287	$ 48,618,876	$ (5,597,584)	$ 71,083,534
Borrowings	31,790,000	-	-	-	31,790,000
Repayments	(24,417,955)	(3,619,287)	(5,343,259)	-	(33,380,501)
Issuance of additional convertible notes as payment for PIK Interest	-	-	923,881	-	923,881
Gain on debt extinguishment	-	-	(467,069) (5)	43,073 (5)	(423,996)
Loss on debt modification	-	-	-	1,265,004 (6)	1,265,004
Deferred financing costs	-	-	-	(84,828) (3)	(84,828)
Debt amendment costs	-	-	-	(292,793) (7)	(292,793)
Amortization and accretion of debt discounts, financing costs and debt issuance costs	-	-	-	3,972,856	3,972,856
Balance at December 31, 2023	$ 31,815,000	$ -	$ 43,732,429	$ (694,272)	$ 74,853,157

Notes to the table:

(1) Represents (i) debt discounts on loan borrowing proceeds and convertible debt issuances, and debt issuance costs netted against the gross proceeds of the Sub Receipt debenture issuance in 2019, (ii) debt discounts on the convertible notes issuance in 2021 and 2022 (iii) debt issuance costs netted against the gross proceeds of the convertible notes and (iv) unamortized deferred financing costs written off as the result of the payoff of a line of credit. All amounts are net of the amortization and accretion of debt discounts, financing costs and debt issuance costs.

(2) Represents debt discounts of $1,392,056 on the convertible notes issuance in 2022 of which $1,231,000 is allocated to embedded derivative liabilities, and $161,056 is allocated to warrant derivative liabilities, and $500,000 of debt issuance costs netted against the gross proceeds of the convertible notes.

(3) Represents deferred financing costs related to the Company's line of credit borrowings.

(4) Represents unamortized deferred financing costs written off as the result of the payoff of a line of credit and reflected as a loss on debt extinguishment within the other expense line item in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022.

(5) Represents discount on repayment and debt discounts and issuance costs written off related to the repayment of convertible notes. The Company recognized a total gain on debt extinguishment of $433,146 with the difference of $9,150 related to the write-off of warrants associated with the convertible notes (Note 13).

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

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

(8)

All loans and borrowings (excluding interest), assuming no prepayments are scheduled to be repaid in the year ended December 31, 2024.

Convertible debentures

In October 2021, the Company completed a private placement of unsecured convertible debenture notes ("convertible notes") in the aggregate principal amount of $43,500,000, of which $33,500,000 million was funded at closing with an additional $10,000,000 available on a delayed draw on the same terms until September 30, 2022. In June 2022, the Company extended the terms on the delayed draw until December 31, 2022, and in October 2022, the Company drew down on the additional $10,000,000 netting gross proceeds of $9,500,000. In August 20023, the Company amended certain terms of the convertible notes including extending the maturity date of the convertible notes from October 2023 to either (i) December 31, 2024 (the "December Maturity Date") if the Company secured an additional Senior Debt Commitment on or prior to December 31, 2023; or (ii) otherwise, June 30, 2024. The Company did not secure an Additional Senior Debt Commitment by December 31, 2023; therefore, the convertible notes will mature on June 30, 2024. Additionally, as part of the transaction, one purchaser was entitled to a seat on the Company's board of directors. The convertible notes are subject to a quarterly total leverage ratio financial covenant. As part of the August 2023 amendment the holders of the convertible notes have agreed to forebear taking any action for noncompliance over the remaining terms of the agreement.

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

Interest on the convertible notes accrue at the rate of (i) 9.50% per annum. The August 2023 amendment changed the interest rate components from 7.50% 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 of the Shares commence trading on a market tier of the Nasdaq Stock Market LLC (a "NASDAQ Listing"), interest shall accrue at a rate of 8.00% per annum, of which 6.00% shall be payable in cash, and the remaining 2.00% shall be payable as PIK Interest.

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

In conjunction with the convertible notes issuance the Company also issued an aggregate of 21,750,000 share purchase warrants being one warrant for each US$2.00 principal amount of convertible notes (Note 13). The warrants to be received have an exercise price of a $0.45CAD ($0.33 - $0.36) and have a two to three-year term.

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

The August 2023 amendment was determined to be a non-substantial debt modification resulting in the Company recording a loss on debt modification of $1,265,004 within the other expense line item in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2023. The Company incurred debt issuance costs of $267,793 related to the amendment. The debt modification loss, debt issuance costs and any unamortized discounts and issuance costs associated with the original issuance are being amortized to interest expense over the remaining life of the convertible notes under the effective interest rate method.

Additionally in August 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 cancelled a total of 2,750,000 of warrants (Note 13). In conjunction with the repayments the Company 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 within the other expense line item in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2023.

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

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

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

In October 2023, the Company entered into repayment agreement with a sub receipt debenture holder whereby the Company repaid $140,000CAD ($106,442) of sub receipt debentures at a discount of $112,000CAD ($85,000). The Company recorded a gain on debt extinguishment of $21,442 within the other expense line item in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2023.

Line of credits

In August 2022, the Company entered into a senior secured revolving credit facility ("revolving credit facility") with two FDIC insured banks and a maximum borrowing base of $24,000,000. In December of 2022 and September of 2023, the revolving credit facility was amended to increase the maximum borrowing base to $39,000,000 and $54,000,000, respectively. The revolving credit facility has a term of two years, expiring in August 2024, and bears interest at an annual rate equal to the greater of (i) 6.0% per annum or (ii) Wall Street Journal Prime plus 1.0% and may be prepaid with no penalty at any time. The revolving credit facility is subject to a quarterly minimum interest expense ratio financial covenant, which the Company was in compliance with as of December 31, 2023. The revolving credit facility is secured by substantially all of the assets of the Company. The Company incurred fees and financing costs of $418,416, which were recorded net of the revolving credit facility carrying value and are being amortized to interest expense over the life of the revolving credit facility under the effective interest rate method.

In August 2022, in conjunction with the Company entering its revolving credit facility the Company repaid and terminated a $15,000,000 secured term loan credit facility ("credit facility"), and a $4,000,000 senior secured revolving credit facility ("line of credit"). The Company incurred fees and financing costs of $253,350 related to the credit facility and line of credit, which were recorded net of the credit facility carrying value and were being amortized to interest expense over the life of the credit facility under the effective interest rate method. Upon repayment and termination, the remaining unamortized financing costs of $134,351 were written off, and the Company incurred early termination and unused facility fees of $235,760. The Company recorded a total of $370,111 as a loss on debt extinguishment within the other expense line item in the consolidated statements of loss and comprehensive income (loss) for the year ended December 31, 2022.

Term loans

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

(Expressed in United States Dollars)

Summary of financing expense, net

The following table below details financing expense, net, reflected within the consolidated statements of loss and comprehensive loss for the years ended December 31, 2023, and 2022, respectively:

	Year ended December 31, 2023	Year ended December 31, 2022
Financing expense:		
Convertible debentures	$ 4,453,692	$ 3,869,813
Term loans	191,002	520,496
Line of credits	2,743,285	476,256
	$ 7,387,979	$ 4,866,565

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 consolidated statements of financial position.

At December 31, 2023, and 2022 the embedded derivative liabilities were re-valued at $839,689CAD ($617,850) and $702,897CAD ($518,000) with changes in fair value of $136,792CAD ($99,850) and $(1,884,074)CAD ($(1,785,722)) reflected in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2023, and 2022, respectively.

The fair value of the embedded derivative liabilities was determined using a Binomial Lattice Model with the following assumptions as of December 31, 2023, and 2022 and at issuance:

	December 31, 2023	December 31, 2022	October 6, issuance
Expected dividend yield	-	-	-
Expected volatility	45.0%	147.5% - 150.1%	153.0%
Risk-free interest rate	5.3%	4.5%	4.2%
Expected term	0.6 years	0.8 years	1 year
Conversion / share price	$ Various	$ Various	$ Various

(Expressed in United States Dollars)

(13) Warrants

The following table summarizes warrant activity for the years ended December 31, 2023, and 2022:

	Number of warrants	Weighted average exercise price per share
Outstanding at December 31, 2021	66,638,459	$ 0.46
Granted	5,000,000	$ 0.33
Outstanding at December 31, 2022	71,638,459	$ 0.45
Expired and cancelled	(45,818,382)	$ 0.42
Outstanding at December 31, 2023	25,820,077	$ 0.55

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 12), 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 consolidated statements of financial position.

In August and October 2023, in connection with the repurchase of convertible notes (Note 12) 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 consolidated statements of loss and comprehensive loss for the year ended December 31, 2023.

At December 31, 2023 and 2002, the warrant derivative liabilities were re-valued using the Black-Scholes option pricing model at $56,918CAD ($42,928), and $468,472CAD ($346,207), respectively, with the change in fair value of $(399,283)CAD ($(294,129)) and $(2,002,104)CAD ($(1,620,514)) reflected in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2023 and 2022, 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 December 31, 2023, and 2022 and at issuance:

	December 31, 2023	December 31, 2022	October 6, issuance
Expected dividend yield	-	-	-
Expected volatility	158.4%	145.4%	145.3%
Risk-free interest rate	3.6%	3.8%	3.8%
Expected term	0.8 years	1.8 years	2 years
Conversion / share price	$ 0.33 - 0.36	$ 0.33 - 0.36	$ 0.33

The following table presents warrants outstanding at December 31, 2023:

Expiration date	Term (years)	Number of warrants outstanding	Number of warrants exercisable	Exercise price US $	Exercise price CAD $
Common share warrants:					
12-Apr-24	5	500,000	500,000	$ 0.82	$ 1.10
11-Sep-24	5	374,308	374,308	$ 0.82	$ 1.10
11-Sep-24	5	5,452,134	5,452,134	$ 1.12	$ 1.50
11-Sep-24	5	363,636	363,636	$ 1.13	$ 1.50
11-Sep-24	5	50,000	50,000	$ 1.14	$ 1.50
11-Sep-24	5	22,727	22,727	$ 1.16	$ 1.50
11-Sep-24	5	25,454	25,454	$ 1.05	$ 1.50
11-Sep-24	5	31,818	31,818	$ 1.20	$ 1.50
28-Oct-24	3	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		25,820,077	25,820,077		

The weighted average remaining term for outstanding warrants is 0.8 years, and the weighted average exercise price is $0.71CAD ($0.55) as at December 31, 2023.

(14) Share capital

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

(Expressed in United States Dollars)

Share conversion

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

(15) Income taxes

Provision for income taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 29.0% (2021 – US federal and state statutory rate of 21.0%) were as follows:

	Year ended December 31, 2023	Year ended December 31, 2022
(Loss) before income taxes	$ (6,507,019)	$ (6,305,488)
Expected income tax recovery based on statutory rate	(1,366,000)	(1,324,000)
Adjustment to expected income tax benefit:		
Permanent differences	407,000	417,000
Other	137,000	245,000
State taxes	(488,000)	(854,000)
Change in benefit of tax assets not recognized	1,310,000	1,516,000
Deferred income tax recovery	$ -	$ -

Deferred income tax

The nature of deferred tax assets that have not been recognized because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom is summarized as follows:

Unrecognized Deferred Tax Assets	December 31, 2023	December 31, 2022
Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:		
Non-capital loss carry-forwards	$ 35,881,000	$ 27,003,000
Share issue costs	110,000	110,000
Other temporary differences	106,000	(1,777,000)
Total	$ 36,097,000	$ 25,336,000

As at December 31, 2023, the Company had Canadian non-capital losses of approximately $8,085,000CAD ($5,988,000) (2022 – CAD $4,613,000) that expire from 2031 to 2043. As at December 31, 2023, the Company had United States net operating losses of approximately $16,881,000 (2022 - $11,962,000) that can be carried forward indefinitely, and state operating losses of approximately $10,902,000 (2022 - $10,428,000) that will begin to expire in 2028.

(Expressed in United States Dollars)

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

(16) Share-based compensation

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

In February 2023, the Company granted a total of 6,187,389 common share options and 28,337 proportionate common share options to employees, directors, and consultants of the Company with an exercise price of $0.07CAD ($0.05). The options have a term of ten years, with 25% vesting immediately and the remainder vesting evenly over three years. A total of 24,480 proportionate common share options were granted to directors and officers. In January, June and October 2022, the Company granted a total of 15,743,035 options to employees, directors and consultants of the Company with exercise prices ranging between $0.13CAD ($0.09) and $0.18CAD ($0.14). The options have terms of five years, with vesting terms either immediately or over three years. A total of 10,813,040 stock options were granted to directors and officers.

In March, April and September 2023 the Company cancelled 25,599,011 common share options of which 19,700,737 were options of directors, officers and a related party (Archytas). In February 2022 the Company and a related party mutually cancelled 50,000 issued options, and the Company and an unrelated party mutually cancelled 427,500 issued options.

The per-share grant date weighted average fair value of stock options was estimated at $0.04 and $0.12 on the date of grant for years ended December 31, 2023, and 2022, respectively, using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,	
	2023	**2022**
Expected dividend yield	-	-
Expected volatility	144.3%	146.0% - 159.6%
Risk-free interest rate	3.5%	1.6% - 4.2%
Expected term	6.0 years	3.5 - 5.0 years
Share price	$ 0.05	$ 0.09 - 0.14

(Expressed in United States Dollars)

The following table summarizes stock option activity under the Option Plan for the years ended December 31, 2023, and 2022:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at December 31, 2021	17,883,548	$ 0.21	4.5
Granted	15,743,035	$ 0.14	
Cancelled / forfeited	(477,500)	$ 0.60	
Outstanding at December 31, 2022	33,149,083	$ 0.17	3.7
Granted	6,215,726	$ 0.05	
Cancelled / forfeited	(25,599,011)	$ 0.16	
Outstanding at December 31, 2023	13,765,798	$ 0.14	5.4
Exercisable and vested at December 31, 2023	7,278,198	$ 0.19	3.7

As of December 31, 2023, there was approximately $556,000 of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 1.2 years.

The Company recorded compensation expense for stock options of $1,927,853 and $1,966,075 for the years ended December 31, 2023, and 2022, respectively, within the consolidated statements of loss and comprehensive loss.

The following table summarizes the stock options outstanding as at December 31, 2023:

Expiry Date	Exercise Price US $	Exercise Price CAD $	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested
July 2028	$ 0.60	$ 0.78	4.55	339,194	339,194
November 2024	$ 0.26	$ 0.34	0.90	1,130,000	1,130,000
April 2025	$ 0.16	$ 0.22	1.30	780,239	780,239
December 2025	$ 0.18	$ 0.23	1.96	16,565	16,565
March 2026	$ 0.26	$ 0.33	2.23	1,530,180	1,180,180
April 2026	$ 0.27	$ 0.33	2.32	100,000	100,000
September 2026	$ 0.16	$ 0.20	2.69	1,260,000	945,000
January 2027	$ 0.14	$ 0.18	3.08	2,039,733	1,019,867
October 2027	$ 0.09	$ 0.13	3.78	498,726	249,363
February 2033	$ 0.05	$ 0.07	9.09	6,071,161	1,517,790
	$ 0.14	$ 0.18	5.38	13,765,798	7,278,198

(Expressed in United States Dollars)

(17) 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 ($22,500 and $20,500 for calendar years 2023 and 2022, respectively). Participants are eligible to receive a matching contribution from the Company of 100% of the first 4% of contributions. The Company contributed $67,741 and $38,540 to the plan for the years ended December 31, 2023, and 2022, respectively.

(18) Related party transactions

The following presents balances and transactions between the Company and other related parties as of December 31, 2023, and 2022, and for the years ended December 31, 2023, and 2022, respectively.

Key management personnel

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

	Year ended December 31,	
	2023	**2022**
Salaries, contractor costs, management fees and benefits	$ 1,143,749	$ 975,521
Incentive compensation (non-cash)	1,129,176	1,011,317
	$ 2,272,925	$ 1,986,838

See also Note 16.

(Expressed in United States Dollars)

Related party transactions and amounts due to related parties

The following table presents expenses incurred and paid on behalf of the Company from related parties for the years ended December 31, 2023, and 2022:

		Archytas [1]	
Amounts due to related parties at December 31, 2021	$	1,849	
Operating expenses		21,242	
Less payments to related parties		(17,277)	
Amounts due to related parties at December 31, 2022	$	5,814	[2]
Operating expenses		24,358	
Less payments to related parties		(23,831)	
Amounts due to related parties at December 31, 2023	$	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 12) of certain officers and directors of the Company that originated in August and November 2021. The Company had a balance outstanding of $371,659 related to the syndication term loans as of December 31, 2022.

(19) 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 December 31, 2023. See also Note 7.

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, 2023, the Company had current assets of $28,572,024 and current liabilities of $80,631,138. All current liabilities are classified as due within one year.

At December 31, 2023, the Company also has the following obligations due:

	Less than 6 months	6 months to 1 years	Total
Trade and other payables	$ 690,639	$ -	$ 690,639
Accrued expenses	4,426,564	-	4,426,564
Loans and borrowings (1)	71,594,629	3,952,800	75,547,429
Balance at December 31, 2023	$ 76,711,832	$ 3,952,800	$ 80,664,632

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:

	December 31, 2023	December 31, 2022
Tax receivable	$ 12,238	$ 18,036
Trade payable	$ 26,916	$ 11,926
Loans and borrowings (1)	$ 5,493,000	$ 5,633,000

Note to the table:
(1) Represents broker debentures and sub receipt convertible debentures (Note 12).

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 consolidated statements of loss and comprehensive loss for the year ended December 31, 2023.

(20) 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.

(21) 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.

Financing receivable

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. As of December 31, 2023, the Company had approximately $4,049,000 and $749,000 of outstanding undiscounted lease receivables and unearned finance income, respectively, for this customer. The Company has not received any written notification from the customer or the receiver of any lease rejections as of the date of this report, and the customer's obligation to pay all amounts due, and to perform all other obligations, in full, under the leases continue. If the customer were to reject any of the leases its obligations under the lease will continue in full effect until the effective date of any rejection, and the Company would take possession of all of the equipment on the effective date of the rejection for either resale or lease to other customers. 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. Additionally, as of the date of this report the customer is not in default as defined under Expected Credit Losses (Note 3). Therefore, the Company has concluded that this is a non-adjusting event and an adjustment allowance for an expected credit allowance in not warranted as of December 31, 2023.

Lease originations

In the months of January through April 2024, the Company completed six lease transactions with publicly traded and private cannabis companies including Aeriz, Ayr Wellness and Jushi. During this period, the Company originated over approximately $1,500,000 of leases.