REFINITIV

DELTA REPORT

10-Q

SHFS - SHF HOLDINGS, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1808
CHANGES	5
DELETIONS	1579
ADDITIONS	224

Exhibit 2.8

UNITED STATES

SECURITIES<u>FIRST AMENDMENT</u>

<u>TO</u>

<u>SECOND AMENDMENT TO AGREEMENT</u> AND <u>EXCHANGE COMMISSION</u> <u>PLAN OF MERGER</u>

Washington, D.C. 20549

<u>WARRANT AGREEMENT</u>

FORM 10-Q

<u>AND</u>

☒

QUARTERLY REPORT PURSUANT<u>LOCK-UP AGREEMENT</u>

This FIRST AMENDMENT TO SECTION 13 OR 15(d) SECOND AMENDMENT TO AGREEMENT AND PLAN OF THE SECURITIES EXCHANGE ACT OF 1934 MERGER, WARRANT AGREEMENT, AND LOCK-UP AGREEMENT (this "***Amendment***

For the quarterly period ended September 30, 2023

or

☐TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______to_______

Commission File Number: 001-40524

<u>SHF Holdings, Inc.</u>

(Exact name ") is dated effective as of registrant as specified in its charter)

Delaware	**86-2409612**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1526 Cole Blvd., Suite 250 **Golden, Colorado**	**80401**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(303)431-3435**

(Former name, former address, and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Class A Common Stock, $0.0001 par value per share	SHFS	The Nasdaq Stock Market LLC
Redeemable Warrants, each whole warrant exercisable for one share of Class A Common Stock at an exercise price of $11.50 per share	SHFSW	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) February 27, 2024, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Date File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" made and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 14, 2023, there were outstanding 46,593,317 shares of the Company’s Class A Common Stock, $0.0001 par value per share.

SHF HOLDINGS, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SHF Holdings, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2023	December 31, 2022
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 8,948,644	$ 8,390,195
Accounts receivable – trade	1,312,900	1,401,839
Contract assets	2,115	21,170
Prepaid expenses – current portion	189,488	175,585
Accrued interest receivable	123,282	40,266
Short-term loans receivable, net	12,166	51,300
Other current assets	-	150,817
Total Current Assets	**$ 10,588,595**	**$ 10,231,172**
Long-term loans receivable, net	304,967	1,250,691
Property, plant and equipment, net	126,363	49,614
Operating lease right to use assets	898,945	1,016,198
Goodwill	6,058,000	19,266,276
Intangible assets, net	5,985,773	10,621,087
Deferred tax asset	43,198,800	51,593,302
Prepaid expenses – long term position	614,120	712,500
Forward purchase receivable	4,584,221	4,584,221
Security deposit	18,501	17,795
Total Assets	**$ 72,378,285**	**$ 99,342,856**
LIABILITIES AND PARENT-ENTITY NET INVESTMENT AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 933,719	$ 2,851,457
Accrued expenses	1,323,651	6,354,485
Contract liabilities	63,402	996
Lease liabilities – current	122,508	20,124
Senior secured promissory note – current portion	2,731,369	-
Deferred consideration – current portion	14,722,147	14,359,822
Due to seller - current portion	-	25,973,017
Other current liabilities	72,912	11,291
Total Current Liabilities	**$ 19,969,708**	**$ 49,571,192**
Warrant liability	1,084,308	666,510
Deferred consideration – long term portion	2,857,891	2,747,592
Forward purchase derivative liability	7,309,580	7,309,580
Due to seller – long term portion	-	30,976,783
Senior secured promissory note—long term portion	11,768,631	-
Lease liabilities – long term	898,745	1,008,109
Deferred underwriter fee	-	1,450,500
Indemnity liability	1,465,455	499,465
Total Liabilities	**$ 45,354,318**	**$ 94,229,731**

Commitment and Contingencies (Note 15)		
Parent-Entity Net Investment and Stockholders' Equity		
Convertible preferred stock, $.0001 par value, 1,250,000 shares authorized, 3,811 and 14,616 shares issued and outstanding on September 30, 2023 and December 31, 2022, respectively	-	1
Class A common stock, $.0001 par value, 130,000,000 shares authorized, 46,593,317 and 23,732,889 issued and outstanding on September 30, 2023 and December 31, 2022, respectively	4,660	2,374
Additional paid in capital	98,704,114	44,806,031
Retained deficit	(71,684,807)	(39,695,281)
Total Parent-Entity Net Investment and Stockholders' Equity	$ 27,023,967	$ 5,113,125
Total Liabilities and Parent-Entity Net Investment and Stockholders' Equity	**$ 72,378,285**	**$ 99,342,856**

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

SHF Holdings, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended September 30		For the nine months ended September 30	
	2023	**2022**	**2023**	**2022**
Revenue	$ 4,332,974	$ 2,379,314	$ 13,085,861	$ 5,903,213
Operating Expenses				
Compensation and employee benefits	$ 2,069,910	$ 865,595	$ 8,269,761	$ 2,383,117
General and administrative expenses	1,482,792	373,695	4,874,255	856,205
Impairment of goodwill	-	-	13,208,276	-
Impairment of finite-lived intangible assets	-	-	3,680,463	-
Professional services	361,804	195,464	1,431,785	534,494
Rent expense	87,951	30,759	246,694	82,087
Provision (benefit) for credit losses	(200,932)	88,345	377,614	383,910
Total operating expenses	$ 3,801,525	$ 1,553,858	$ 32,088,848	$ 4,239,813
Operating (loss) income	531,449	825,456	(19,002,987)	1,663,400
Other expenses (income)				
Interest expense	356,840	36,002	1,544,779	36,002
Change in fair value of forward purchase option derivative liability	-	601,691	-	601,691
Change in fair value of warrant liability	860,735	(868,472)	417,798	(868,472)
Total other expenses	$ 1,217,575	$ 230,779	$ 1,962,577	$ 230,779
Net (loss) income before income tax	(686,126)	1,056,235	(20,965,564)	1,894,179
Income tax (benefit) expense	61,941	-	(1,199,483)	-
Net (loss) income	$ (748,067)	$ 1,056,235	$ (19,766,081)	$ 1,894,179
Weighted average shares outstanding, basic	49,257,988	18,715,912	38,725,273	18,715,912
Basic net (loss) income per share	$ (0.02)	$ 0.06	$ (0.51)	$ 0.10
Weighted average shares outstanding, diluted	49,257,988	20,760,912	38,725,273	20,760,912
Diluted (loss) income per share	$ (0.02)	$ 0.05	$ (0.51)	$ 0.09

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

SHF Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF PARENT-ENTITY NET INVESTMENT AND STOCKHOLDERS' EQUITY

(Unaudited)

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2023

	Preferred Stock		Class A Common Stock		Additional Paid-in Capital	Parent-Entity Net Investment	Retained deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, June 30, 2023	**4,221**	**$ -**	**46,265,317**	**$ 4,627**	**$ 97,923,103**	**$ -**	**$ (70,577,990)**	**$ 27,349,740**
Conversion of PIPE shares	(410)	-	328,000	33	358,717	-	(358,750)	-
Restricted stock units	-	-	-	-	33,735	-	-	33,735
Stock option conversion	-	-	-	-	388,559	-	-	388,559
Net loss	-	-	-	-	-	-	(748,067)	(748,067)
Balance, September 30, 2023	**3,811**	**$ -**	**46,593,317**	**$ 4,660**	**$ 98,704,114**	**$ -**	**$ (71,684,807)**	**$ 27,023,967**

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022

	Preferred Stock		Class A Common Stock		Additional Paid-in Capital	Parent-Entity Net Investment	Retained deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, June 30, 2022	**-**	**$ -**	**-**	**$ -**	**$ -**	**$ 8,312,043**	**$ -**	**$ 8,312,043**
Issuance of shares in connection with Business Combination and PIPE offering, net of issuance costs	20,450	2	18,715,912	1,872	30,451,696	(9,124,297)	-	21,329,273
Net profit	-	-	-	-	-	812,254	243,981	1,056,235
Balance, September 30, 2022	**20,450**	**$ 2**	**18,715,912**	**$ 1,872**	**$ 30,451,696**	**$ -**	**$ 243,981**	**$ 30,697,551**

SHF Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF PARENT-ENTITY NET INVESTMENT AND STOCKHOLDERS' EQUITY

(Unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023

	Preferred Stock		Class A Common Stock		Additional Paid-in Capital	Parent-Entity Net Investment	Retained deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2022	**14,616**	**$ 1**	**23,732,889**	**$ 2,374**	**$ 44,806,031**	**$ -**	**$ (39,695,281)**	**$ 5,113,125**
Reversal of deferred underwriting cost	-	-	-	-	900,500	-	-	900,500
Cumulative effect from adoption of CECL	-	-	-	-	-	-	(581,321)	(581,321)
Conversion of PIPE shares	(10,805)	(1)	10,394,200	1,039	11,641,086	-	(11,642,124)	-
Restricted stock units	-	-	1,266,228	127	1,243,446	-	-	1,243,573
Stock option conversion	-	-	-	-	1,707,763	-	-	1,707,763
Issuance of shares to PCCU (net of tax)	-	-	11,200,000	1,120	38,405,288	-	-	38,406,408
Net loss	-	-	-	-	-	-	(19,766,081)	(19,766,081)
Balance, September 30, 2023	**3,811**	**$ -**	**46,593,317**	**$ 4,660**	**$ 98,704,114**	**$ -**	**$ (71,684,807)**	**$ 27,023,967**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

	Preferred Stock		Class A Common Stock		Additional Paid-in Capital	Parent-Entity Net Investment	Retained deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2021	**-**	**$ -**	**-**	**$ -**	**$ -**	**$ 7,339,101**	**$ -**	**$ 7,339,101**
Contribution from parent	-	-	-	-	-	134,998	-	134,998
Issuance of shares in connection with Business Combination and PIPE offering, net of issuance costs	20,450	2	18,715,912	1,872	30,451,696	(9,124,297)	-	21,329,273

Net income	-	-	-	-	-	1,650,198	243,981	1,894,179
Balance, September 30, 2022	**20,450**	**$ 2**	**18,715,912**	**$ 1,872**	**$ 30,451,696**	$ -	**$ 243,981**	**$ 30,697,551**

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

SHF Holdings, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended September 30,	
	2023	**2022**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (19,766,081)	$ 1,894,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,086,535	3,576
Stock compensation expense	2,951,336	-
Interest expense	1,544,780	-
Provision for credit losses	377,614	383,910
Lease expense	110,273	-
Impairment of goodwill	13,208,276	-
Impairment of finite-lived intangible assets	3,680,463	-
Deferred tax benefit	(1,199,483)	(266,781)
Change in fair value of warrant	417,798	-
Changes in operating assets and liabilities:		
Accounts receivable	88,937	(290,361)
Contract assets	19,055	10,641
Prepaid expenses	84,477	(20,457)
Accrued interest receivable	(83,017)	(17,866)
Deferred underwriting payable	(550,000)	-
Other current assets	150,817	-
Accounts payable	(1,856,117)	116,050
Accrued expenses	(552,395)	153,662
Deferred loan origination fees	-	-
Contract liabilities	62,406	6,250
Security deposit	(706)	(5,036)
Net cash (used in) provided by operating activities	(225,032)	1,967,767
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	(208,434)	(13,735)
Funding of other investment	-	(500,000)
Repayment of loans receivable, net	991,914	35,241
Net cash provided by (used in) investing activities	783,480	(483,530)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Proceeds from reverse capitalization, net of transaction costs	-	287,834
Net cash provided by financing activities	-	287,834
Net increase in cash and cash equivalents	558,449	1,777,107
Cash and cash equivalents – beginning of period	8,390,195	5,495,905
Cash and cash equivalents – end of period	$ 8,948,644	$ 7,273,012
Supplemental disclosure		
Shares issued for the settlement of PCCU debt obligation	$ 38,406,408	$ -

Cumulative effect from adoption of CECL	581,321	-
Interest payment on senior secured promissory note	260,007	-
Reversal of deferred underwriting cost	900,500	-

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

SHF Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
Note 1. Organization and Business Operations
Business Description

The Company originated as business operations conducted through Partner Colorado Credit Union ("PCCU"), which were transferred to SHF LLC ("SHF"), then an indirect wholly owned subsidiary of PCCU.

SHF Holdings, Inc. (the "Company"), formerly known as Northern Lights Acquisition Corp. ("NLIT"), acquired all of the outstanding membership interests of SHF in a transaction that closed on September 28, 2022 (the "Business Combination"). The Business Combination was consummated pursuant to a Unit Purchase Agreement dated February 11, 2022 (the "Business Combination Agreement") among SHF, SHF Holding Co., LLC (the direct parent of SHF and a wholly owned subsidiary of PCCU), PCCU, NLIT, a special purpose acquisition company, and its sponsor, 5AK, LLC. Subsequent to the completion of the Business Combination, NLIT changed its name to "SHF Holdings, Inc." In this quarterly report on Form 10-Q (the "Quarterly Report"), we use the terms "we," "us," "our" and the "Company" to refer to the business and operations of SHF Holdings, Inc. following the closing of the Business Combination. (Refer to Note 3 to the Unaudited Condensed Consolidated Financial Statements.)

SHF was formed by PCCU following the approval of the contribution of certain assets and operating activities associated with operations from both certain branches and Safe Harbor Services, a wholly-owned subsidiary of PCCU, to SHF Holding, Co., LLC. SHF Holding, Co., LLC then contributed the same assets and related operations to SHF, with PCCU's investment in SHF maintained at the SHF Holding, Co., LLC level (the "reorganization"). The reorganization effectively occurred July 1, 2021. In conjunction with the reorganization, all of the employees engaged in the operations and certain PCCU employees were terminated from PCCU and hired as SHF employees. Collectively, Oldco, the relevant operations of the PCCU branches, and SHF, represent the "Carved-Out Operations." After the reorganization, the entirety of the Carved-Out Operations were owned by SHF and Oldco was dissolved. In addition, effective July 1, 2021, SHF entered into an Account Servicing Agreement by and Support Services Agreement with PCCU, which memorialized the operational relationship between SHF and PCCU and which were subsequently amended and restated and are discussed in Note 9 to the Unaudited Condensed Consolidated Financial Statements.

On September 28, 2022, the parties consummated the Business Combination, resulting in NLIT acquiring all of the issued and outstanding membership interests of SHF upon exchange for an aggregate of $185,000,000, consisting of (i) 11,386,139 shares of the Company's Class A common stock with an aggregate value equal to $115,000,000 and (ii) $70,000,000 in cash, $56,949,801 of which will be paid on a deferred basis. At the closing, 1,831,683 shares of the Class A Common Stock were deposited with an escrow agent to be held in escrow for a period of 12 months following the closing date to satisfy potential indemnification claims of the parties. On September 30, 2023, the 12 month period has expired, and the Company is in discussion with the escrow agent for the release those shares. For more information about the Business Combination, refer to Note 3 to the Unaudited Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q. As a result of the Business Combination, PCCU is the Company's largest stockholder, owning 46.37% of the Company's outstanding Class A Common Stock.

The Business Combination Agreement was amended to provide for the deferral of a portion of the cash due to PCCU at the closing of the Business Combination. The purpose of this deferral was to provide the Company with additional cash to support its post-closing activities. Furthermore, PCCU also agreed to defer $3,143,388, representing certain excess cash of SHF due to PCCU under the Business Combination Agreement, and the reimbursement of certain reimbursable expenses under the Business Combination Agreement.

On October 26, 2022, among SHF Holdings, Inc., entered into a Forbearance Agreement (the "Forbearance Agreement") with PCCU and Luminous Capital USA Inc. Delaware corporation ("Luminous"***Parent***"), an affiliate of the sponsor of NLIT. Under the Forbearance Agreement, PCCU agreed to defer all payments owed by the Company pursuant to the Business Combination Agreement for a period of six months from the date of the Forbearance Agreement. On March 29, 2023, the Company and PCCU entered into a definitive transaction to settle and restructure the deferred obligations payable in connection with the business combination.

The Company generates both interest income and fee income through providing a variety of services to financial institutions desiring to service the cannabis industry including, among other things, the origination, onboarding, and servicing of cannabis-related deposit business for and on behalf of those partner institutions; Bank Secrecy Act and other regulatory compliance and reporting related to these accounts; onboarding these accounts and responding to account and customer service inquiries; and sourcing, underwriting, and servicing, and administering loans issued to cannabis businesses and related entities. In addition to PCCU, the Company provides these similar services and outsourced support to other financial institutions providing banking to the cannabis industry. These services are provided to other financial institutions under the Safe Harbor Master Program Agreement.

On October 31, 2022, the Company entered into an Agreement and Plan of Merger (the “Abaca Merger Agreement”) by and among the Company, SHF Merger Sub I Inc., a Delaware corporation and a direct wholly-owned subsidiary of the Company Parent (“***Merger Sub I” I***”), SHF Merger Sub II LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of the Company Parent (“***Merger Sub II” and, together with Merger Sub I, the “Merger Subs” II***”), Rockview Digital Solutions, Inc., a Delaware corporation, d/b/a Abaca (“Abaca” (the “***Company***”), and Dan Roda, solely in such individual’s capacity as the representative of the security Company Securityholders (the “***Company Stockholders’ Representative***” and together with Parent, Merger Sub I, Merger Sub II and the Company, collectively, the “***Parties***”).

WHEREAS, the Parties entered into that certain Agreement and Plan of Merger, dated as of October 29, 2022 (the “***Original Agreement***”), which was subsequently amended on November 11, 2022 (the “***First Amendment***”), and amended again on October 26, 2023 (the “***Second Amendment***”);

WHEREAS, pursuant to Section 5 of the Second Amendment, Parent was to prepare, pay, and file with the U.S. Securities and Exchange Commission (the “***Commission***”), a Registration Statement registering the resale from time to time by the holders of Abaca the Registrable Securities of all Registrable Securities then held by such holders (the “Abaca “***Registration Statement Rights***”);

WHEREAS, pursuant to Section 4 of the Second Amendment, on October 26, 2023, Parent entered into that certain Warrant Agreement by and between Parent and the Company Stockholders’ Representative” Representative (the “***Warrant Agreement***”). On November 11, 2022, the parties which was attached to the Abaca Merger Second Amendment as Exhibit A thereto;

WHEREAS, *Section 6. Redemption* contained in the Warrant Agreement, including related references throughout, was not intended to be a term of agreement between the Parties and should not have been included in the Second Amendment, and as such, is being formally struck by this Amendment; and

WHEREAS, the Parties intend to amend the Form of Lock-Up Agreement entered into an amendment on November 14, 2022 (the ***“Lock-up Agreement”***);

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the Parties agree as follows:

1. Capitalized Terms. All capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Original Agreement, First Amendment, and/or Second Amendment, as applicable.

2. Amendment to the Abaca Merger Second Amendment.

a. Section 5 of the Second Amendment is amended as follows:

5. Registration. The Parent agrees that in the event that law or regulation requires a registration of the Parent Common Stock, such that the issued shares are saleable without restrictive legends (the "***Registration Requirement***"), and subject to the Securities Act, within 45 calendar days after being notified of a Registration Requirement, it shall use its reasonable best efforts to file with the Commission a registration statement for the registration, under the Securities Act, of the shares of Parent Common Stock. Failure to file such registration statement within 45 calendar days after the notice of a Registration Requirement shall constitute an event of default. Parent shall use commercially reasonable efforts to cause the registration statement in connection with the Registration Requirement to be declared effective as soon as possible after filing, and once effective, to keep the registration statement continuously effective under the Securities Act at all times until the earlier of (i) the first anniversary of the date of filing "Form 10 information" (as defined in Rule 144 of the Securities Act) reflecting the consummation of the transactions contemplated by this Second Amendment or (ii) the date of which all of the Registrable Securities have been sold pursuant to a Registration Statement (but in no event prior to the applicable period referred to in Section 4(a)(3) of the Securities Act and Rule 174 thereunder (or any successor rule promulgated thereafter by the Commission)). For purposes of this section, the registration statement in connection with the Registration Requirement means a registration statement filed by the Parent with the Commission in compliance with the Securities Act and the rules and regulations promulgated thereunder for a public offering and sale of equity securities, or securities or other obligations exercisable or exchangeable for, or convertible into, equity securities (other than a registration statement on Form S-4 or Form S-8, or their successors, or any registration statement covering only securities proposed to be issued in exchange for securities or assets of another entity).

3. Amendments to the Warrant Agreement.

a. Section 3.2 of the Warrant Agreement is amended as follows:

"3.2 Duration of Warrants. A Warrant may be exercised only during the period (the "***Exercise Period***") commencing October 26, 2023 and terminating October 25, 2028 (the "***Expiration Date***"). Each Warrant not exercised on or before the Expiration Date shall become void, and all rights thereunder and all rights in respect thereof under this Agreement shall cease at 5:00 p.m. New York City time on the Expiration Date. The Parent in its sole discretion may extend the duration of the Warrants by delaying the Expiration Date; provided, that the Parent shall provide at least twenty (20) days prior written notice of any such extension to modify Registered Holders of the Warrants."

b. Section 6 is hereby deleted in its entirety, and any related references to redemption contained in the Warrant Agreement, including without limitation the second paragraph of the form "*Election to Purchase (To be Executed Upon Exercise of Warrant)*," are hereby deleted in their entirety.

c. Section 7.4.1 of the Warrant Agreement is hereby amended to read as follows:

7.4.1 Registration of the Common Stock. The Parent agrees that in the event that law or regulation requires the registration of Parent Common Stock issued upon exercise of the Warrants, such that the common stock issued in connection with the warrant exercise are saleable without restrictive legends (the "***Warrant Registration Requirement***"), that within 45 calendar days after being notified of a Warrant Registration Requirement, it shall use its reasonable best efforts to file with the Commission a registration statement for the registration, under the Securities Act, of the shares of common stock issuable upon exercise of the Warrants. Failure to file such registration statement within 45 calendar days after the notice of a Warrant Registration Requirement shall constitute an event of default. The Parent shall use its reasonable best efforts to cause the same to become effective and to maintain the effectiveness of such registration statement, and a current prospectus relating thereto, until the expiration of the Warrants in accordance with the provisions of this Agreement. If any such registration statement filed pursuant to a Warrant Registration Requirement has not been declared effective by the 1 year anniversary following its filing date, holders of the Warrants shall have the right, during the period beginning on the 366th day after the filing of such registration statement and ending upon such registration statement being declared effective by the Commission, to exercise such Warrants on a "cashless basis," by exchanging the Warrants (in accordance with Section 3(a)(9) of the Securities Act (or any successor rule) or another exemption) for that number of shares of Common Stock equal to the quotient obtained by dividing (x) the product of the number of shares of the Company's Class A

Common Stock underlying the Warrants, multiplied by the excess of the "Fair Market Value" (as defined below) over the Warrant Price by (y) the Fair Market Value. Solely for purposes of this subsection 7.4.1, "Fair Market Value" shall mean the volume weighted average price of the Common Stock as reported during the ten (10) trading day period ending on the trading day prior to the date that notice of exercise is received by the Warrant Agent from the holder of such Warrants or its securities broker or intermediary. The date that notice of cashless exercise is received by the Warrant Agent shall be conclusively determined by the Warrant Agent. In connection with the "cashless exercise" of a Warrant, the Parent shall, upon request, provide the Warrant Agent with an opinion of counsel for the Parent (which shall be an outside law firm with securities law experience) stating that (i) the exercise of the Warrants on a cashless basis in accordance with this subsection 7.4.1 is not required to be registered under the Securities Act and (ii) the shares of Common Stock issued upon such exercise shall be freely tradable under United States federal securities laws by anyone who is not an affiliate (as such term is defined in Rule 144 under the Securities Act (or any successor rule)) of the Parent and, accordingly, shall not be required to bear a restrictive legend.

4. Consideration. In consideration of the foregoing amendments, Parent has agreed to modify the Lock-Up Agreement and shall accelerate the Lock-up Period as consideration thereunder. On November 15, 2022, defined in Section 1(a) of the parties consummated Lock-up Agreement to expire contemporaneous with the transactions contemplated effective date of this Amendment and to cooperate in the removal of any related restrictive legends such that the issued Parent Common Stock are saleable without restrictive legends, subject the Securities Act. For the avoidance of doubt, no other provisions of the Lock-Up Agreement shall be amended by this Amendment.

5. Representations and Warranties. Each Party, including the Abaca Merger Agreement, as amended. Pursuant to the Abaca Merger Agreement, as amended, (a) Merger Sub I merged with and into Abaca, with Abaca surviving as a direct wholly-owned subsidiary Company Stockholders' Representative on behalf of each of the Company ("Merger I") Stockholders, hereby represents and (b) immediately following the effective time of the Merger I, Abaca merged with and into Merger Sub II ("Merger II" and, collectively with Merger I, the "Mergers"), with Merger Sub II surviving Merger II as a direct wholly-owned subsidiary of the Company.

Pursuant warrants to the Abaca Merger Agreement, other Parties that:

a. It has the full right, power, and authority to enter into this Amendment and to perform its obligations hereunder and under the agreements amended by this Amendment;

b. the execution of this Amendment by the individual whose signature is set forth at the end of this Amendment on behalf of such Party, and the delivery of this Amendment by such Party, have been duly authorized by all necessary action on the part of such Party; and

c. this Amendment has been executed and delivered by such Party and (assuming due authorization, execution, and delivery by the other Party) constitutes the legal, valid, and binding obligation of such Party, enforceable against such Party in accordance with its terms, except as may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws and equitable principles related to or affecting creditors' rights generally or the effect of general principles of equity.

d. EXCEPT FOR THE EXPRESS REPRESENTATIONS AND WARRANTIES SET FORTH IN THE ORIGINAL AGREEMENT AND IN THIS SECTION 5 OF THIS AMENDMENT, (A) NO PARTY HERETO NOR ANY PERSON ON SUCH PARTY'S BEHALF HAS MADE OR MAKES ANY EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY WHATSOEVER, EITHER ORAL OR WRITTEN, WHETHER ARISING BY LAW, COURSE OF DEALING, COURSE OF PERFORMANCE, USAGE OF TRADE, OR OTHERWISE, ALL OF WHICH ARE EXPRESSLY DISCLAIMED, AND (B) EACH PARTY HERETO ACKNOWLEDGES THAT IT HAS NOT RELIED UPON ANY REPRESENTATION OR WARRANTY MADE BY THE OTHER PARTY, OR ANY OTHER PERSON ON SUCH OTHER PARTY'S BEHALF, EXCEPT AS SPECIFICALLY PROVIDED IN THIS SECTION 5.

6. No Other Amendments; Conflict. Except as amended herein, the Company acquired Abaca together with its proprietary financial technology platform in exchange for $30,000,000, paid in a combination of cash and shares of Second Amendment, the Company as follows: (a) cash consideration in an amount equal to (i) $9,000,000 ($3,000,000 was payable at the closing of the Mergers (the "Merger Closing"), with an additional $3,000,000 payable at each of the one-year and two-year anniversaries of the Merger Closing), (collectively, the "Cash Consideration"); and (b) 2,100,000 shares of Class A Common Stock at the Closing Date

and $12,600,000 (minus an outstanding note balance of $500,000, plus accrued interest) in shares of Class A Common Stock at the one-year anniversary of the Merger Closing based on a 10-day VWAP (collectively, the "Share Consideration"). Each of the Company, the Merger Subs, and Abaca provided customary representations, warranties and covenants in the Agreement. The Abaca Merger Agreement has been subsequently amended. Please see Note 23 (Subsequent Events) to the financial statements below for additional information.

On March 29, 2023, the Company and PCCU entered into a definitive transaction to settle and restructure the deferred obligations, including $56,949,800 into a five-year Senior Secured Promissory Note (the "Note") in the principal amount of $14,500,000 bearing interest at the rate of 4.25%; a Security Agreement pursuant to which the Company will grant, as collateral for the Note, a first priority security interest in substantially all of the assets of the Company; and a Securities Issuance Agreement, pursuant to which the Company will issue 11,200,000 shares of the Company's Class A Common Stock to PCCU. The Company and PCCU also entered into the Commercial Alliance Agreement that sets forth the terms and conditions of the lending-related and account-related services governing the relationship between the Company and PCCU and supersedes the Loan Servicing Agreement, as well as the Amended and Restated Support Services Warrant Agreement, and the Amended Lock-Up Agreement shall remain in full force and Restated Account Servicing Agreement.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

i. Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Material estimates that are particularly subject to change in the near term include the determination of the allowance for credit losses, indemnification liabilities, valuation and useful lives of intangibles and the fair value of financial instruments. Actual results could differ from the estimates.

ii. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared effect in accordance with accounting principles generally accepted in their original terms. Furthermore, the United States ("U.S. GAAP" or "GAAP") for interim financial information Original Agreement, the First Amendment, the Second Amendment, and the rules Warrant Agreement shall be interpreted consistent with this Amendment. In the event of any conflict between the Original Agreement, the First Amendment, the Second Amendment, and regulations of the Securities Warrant Agreement and Exchange Commission (the "SEC").this Amendment, this Amendment shall prevail.

The accompanying unaudited condensed consolidated financial statements contain all normal 7. Governing Law. This Amendment is governed by and recurring adjustments necessary to state fairly the consolidated financial condition, results of operations, statements of shareholders' equity, and cash flows of the Company for the interim periods presented. Except as otherwise disclosed, all such adjustments consist only of those of a normal recurring nature. Operating results for the three and nine months ended September 30, 2023, are not necessarily indicative of the results that may be expected for the current year ending December 31, 2023. The financial data presented herein should be read in conjunction with the audited consolidated financial statements and accompanying notes as of and for the years ended December 31, 2022, and 2021 included in the Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K").

Certain information and footnote disclosures normally included in financial statements prepared construed in accordance with U.S. GAAP have been condensed or omitted pursuant the laws of the State of Delaware, without regard to the rules conflict of laws provisions of such State.

8. Entire Agreement. The Original Agreement, the First Amendment, the Second Amendment, the Warrant Agreement, and regulations this Amendment (including any Exhibits and Disclosure Schedules thereto) shall constitute the full and entire understanding and agreement between the Parties with respect to the subject matter hereof and thereof and supersede any and all other written or oral agreements.

9. Costs. Each Party shall pay its own costs and expenses in connection with this Amendment (including the fees and expenses of the SEC its advisors, accountants, and legal counsel).

10. Counterparts. This Amendment may be executed in any number of counterparts, each of which so executed are deemed to be an original, but all of which together constitute one and the instructions to Form 10-Q.

iii. Liquidity and Going Concern

As of September 30, 2023, the Company had $8,948,644 in cash and net working capital deficit of $9,381,113, as compared to $8,390,195 in cash and net working capital deficit of $39,340,020 at December 31, 2022. Included in the working capital deficit at September 30, 2023 and December 31, 2022 are $12,011,163 and $11,622,831, respectively, which represent the equity consideration payable towards the Abaca acquisition. The Company has also earned an operating profit of $531,449 for the three months ended September 30, 2023 and incurred an operating loss of $19,002,987 for the nine months ended September 30, 2023.

Based upon these factors, management of the Company has determined that there is a risk of substantial doubt about the Company's ability to continue as a going concern for a period of at least twelve months from the date these unaudited condensed consolidated financial statements have been issued.

At December 31, 2022, a significant component of the working capital deficit was $25,973,017 representing the current portion of due to PCCU. As outlined above, the Company restructured the due to PCCU issuing equity and a long-term payable. As a result, this risk factor that the Company may not be able to continue as a going concern which existed at December 31, 2022 was alleviated. Despite the restructuring of the due to PCCU, at September 30, 2023, the working capital deficit includes an equity commitment towards the Abaca acquisition, which is a non-cash liability amounting to $12,011,163. These factors, however, do not fully remove substantial doubt regarding the Company's ability to continue as a going concern. If the Company is not able to sustain its present level of operations, it may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, or suspend or curtail planned expansion programs. Any of these actions could materially harm the Company's business, results of operations and future prospects.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result should the Company not continue as a going concern as a result same instrument. A signed copy of this uncertainty.

iv. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from financial institutions, and investments with maturities Amendment delivered by facsimile, email, or other means of three months or less.

v. Concentrations electronic transmission is deemed to have the same legal effect as delivery of Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. Cash balances are maintained substantially in accounts at PCCU which is insured by the National Credit Union Share Insurance Fund ("NCUSIF") up to regulatory limits. From time to time, cash balances may exceed the NCUSIF insurance limit. The Company has not experienced any credit losses associated with its cash balances in the past.

Currently the Company only services the cannabis industry. Cannabis remains illegal under federal law, and therefore, strict enforcement of federal laws regarding cannabis would likely result in our inability to execute our business plan.

Currently the Company substantially relies on PCCU to hold customer deposits and fund its originated loans. As an original signed copy of this time, substantially all of Amendment.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the Company's revenue is generated by deposits Parties have duly acknowledged, certified, and loans hosted by PCCU pursuant to a master service agreement.

The Company had only one loan on its balance sheet as of September 30, 2023, which comprises 100% of the total loan balance. The Company also indemnified 11 loans as of September 30, 2023; one of these indemnified loans constitute16% of the total balance.

vi. Accounts Receivable-PCCU and Allowance for Doubtful Accounts

Accounts receivable are recorded based on account fee schedules. While fees are generated from individual CRB related accounts, amounts are initially collected by the financial institutional partners and remitted in the subsequent month. As of September 30, 2023, and December 31, 2022, 77% and 85% of the Accounts Receivable, respectively, is due from PCCU. The Company maintains allowances for doubtful accounts for estimated losses as a result of a customers' inability to make required payments. The Company estimates anticipated losses from doubtful accounts based on days past due as measured from the contractual due date and historical collection history. The Company also takes into consideration changes in economic conditions that may not be reflected in historical trends, for example customers in bankruptcy, liquidation or reorganization. Receivables are written-off against the allowance for doubtful accounts when they are determined uncollectible. Such determination includes analysis and consideration of the particular conditions of the account, including time intervals since last collection, customer performance against agreed upon payment plans, solvency of customer and any bankruptcy proceedings.

At September 30, 2023 and December 31, 2022, there were no recorded allowances for doubtful accounts on accounts receivables.

vii. Loans Receivable

PCCU underwrites mortgage, commercial and consumer loans to members and other businesses. Commercial CRB loans originated by the Company and funded by PCCU are typically managed by the Company, inclusive of originated and funded loans that are on the PCCU balance sheet only. Certain CRB Loans were contributed to the Company's Operations. Such loans where the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal balance outstanding, net of an allowance for credit losses and net deferred loan origination fees and costs when applicable. Interest income on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired, or payments are past due ninety days or more. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts are satisfied to where the loan is less than ninety days past due and future payments are reasonably assured.

Loans are evaluated for charge-off on a case-by-case basis and are typically charged off at the time of foreclosure.

Past-due status is based on the contractual terms of the loans. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if the collection of principal and interest is considered doubtful. Interest income is not recognized by the Company in such cases.

viii. Allowance for Credit Losses (ACL)

On January 1, 2023, the Company adopted Accounting Standards Codification Topic 326 – Financial Instruments – Credit Losses (ASC Topic 326), which replaced the incurred loss methodology for estimated probable credit losses with an expected credit loss methodology that is referred to as the current expected credit loss ("CECL") methodology.

The ACL is a valuation account that is deducted from the amortized cost basis of financial assets carried at their amortized cost, including loans held for investment, to present the net amount that is expected to be collected throughout the life of the financial asset. The estimated ACL is recorded through a provision for credit losses charged against operations. Management periodically evaluates the adequacy of the ACL to maintain it at a level it believes to be reasonable. The Company uses the same methods used to determine the ACL to assess any reserves needed for off-balance sheet credit risks such as unfunded loan commitments including Indemnified loans to PCCU. These reserves for off-balance sheet credit risks are presented in the liabilities section in the condensed consolidated balance sheets as an "Indemnity liability."

The ACL consists of two components: an asset-specific component for estimating credit losses for individual loans that do not share similar risk characteristics with other loans; and a pooled component for estimating credit losses for pools of loans that share similar risk characteristics. The ACL for the pooled component is derived from an estimate of expected credit losses primarily using an expected loss methodology that incorporates risk parameters such as probability of default ("PD") and loss given default ("LGD") which are derived from various vendor models and/or internally developed model estimation approaches for smaller homogenous loans.

PD is projected in these models or estimation approaches using economic scenarios, whose outcomes are weighted based on the Company's economic outlook and are developed to incorporate relevant information about past events, current conditions, and reasonable and supportable forecasts. The Company considers relevant current conditions and reasonable and supportable forecasts that relate to its lending practices and environment and the specific borrower and determines that the significant factor affecting the loan's performance is the fact that these borrowers are involved in the cannabis business. Despite being legal at the state level in certain jurisdictions, cannabis remains federally illegal in the United States executed this Amendment as of the date of this filing. As cannabis related lending is a new practice in the United States, there is very little historical or industry data on which to base a loss forecast. Therefore, significant judgement is required in creating a reasonable loss estimate, using similar non-MRB loans as a baseline and adjusting for the inherent risks in the cannabis industry. While the Company considers other qualitative factors, including national macroeconomic conditions, in its overall risk analysis, it has determined that they are not significant inputs to the overall loss estimate calculations.first written above.

The ACL estimation process also applies an economic forecast scenario, or a composite of scenarios based on management's judgment and expectations around the current and future macroeconomic outlook. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term of a loan excludes expected extensions, renewals, and modification under certain conditions.

Recoveries on loans represent collections received on amounts that were previously charged off against the ACL. Recoveries are credited to the ACL when received, to the extent of the amount previously charged off against the ACL on the related loan. Any amounts collected in excess of this limit are first recognized as interest income, then as a reduction of collection costs, and then as other income.

ix. Allowance for Loan Losses

Prior to the adoption of CECL on January 1, 2023, the Company recognized an allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the required allowance for loan losses balance using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Due to the nature of uncertainties related to any estimation process, management's estimate of loan losses inherent in the loan portfolio may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

A loan is considered impaired when, based on current information and events, full payment under the loan terms is not expected. Impairment is generally evaluated in total for smaller-balance loans of similar nature such as commercial lines of credit, but may be evaluated on an individual loan basis if deemed necessary. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

The loans SHF originates are secured by various types of assets of the borrowers, including real property and certain personal property, including value associated with other assets to the extent permitted by applicable laws and the regulations governing the borrowers. The documents governing the loans also include a variety of provisions intended to provide remedies against the value associated with licenses. Collection procedures are designed to ensure that neither SHF nor its financial institution clients who provide funding for a loan, nor a third-party agent engaged to assist with the liquidation or foreclosure process, will take possession of cannabis inventory, cannabis paraphernalia, or other cannabis-related assets, nor will they take title to real estate used in cannabis-related businesses. Upon default of a loan, a third-party agent will be engaged to work with the borrower to have the borrower sell collateral securing the loan to a third party or to institute a foreclosure proceeding to have such collateral sold to generate funds towards the payoff of the loan. Applicable regulations under state law that govern CRBs generally do not permit the taking of title to real estate involved in commercial sales of cannabis, whether through foreclosure or otherwise, without prior regulatory approval. The sale of a license or other realization of the value of licenses also requires the approval of state and local regulatory authorities. A defaulted loan may also be sold if such a sale would yield higher proceeds or that a sale could be accomplished more quickly than a foreclosure proceeding while yielding proceeds comparable to what would be expected from a foreclosure sale. Such sale of the loan would be conducted through a third-party administrative agent. However, SHF can provide no assurances that a sale of such loans would be possible or that the sales price of such loans would be sufficient to recover the outstanding principal balance, accrued interest, and fees.

x. Net Deferred Loan Origination Fees and Cost

When included with a new loan origination, the Company receives loan origination fees in conjunction with new loans funded and any indemnified liabilities which are not recorded on the balance sheet from the Company financial institution partners. Where applicable, the loan origination fee is netted with loan origination costs associated with originating a specific loan. These loan origination costs are typically incremental direct costs (non-reimbursed) paid to third parties. Net loan origination fees are initially deferred and recognized as interest income utilizing the interest method.

xi. Indemnity Liability

Under the prior Loan Servicing Agreement, PCCU, in exchange for a fee at an annual rate of 0.25% of the outstanding principal balance, funds certain loans. Under the Loan Servicing Agreement, the Company had agreed to indemnify PCCU from all claims related to Company's cannabis-related business, including but not limited to default-related credit losses as defined in the Loan Servicing Agreement. The indemnification component of the Loan Servicing Agreement (refer to Note 9 to the unaudited condensed consolidated financial statements) is accounted for in accordance with accounting standards codification (*"ASC") 460 Guarantees*. In determining the applicability of ASC 460, the Company considered that the agreement outlines a broad indemnification of all claims related to the cannabis-related business. The most immediate and potentially significant of these are potential default-related credit losses. In the lending industry, it is inherently anticipated future credit losses will result from currently issued debt. The Company's indemnity obligation is subordinate to PCCU's and other financial institution clients' other means of collecting on the loans including foreclosure of the collateral, recourse against personal and/or corporate guarantors and other default remedies available in the loan agreements. Since borrowers are not party to the agreement between Company and PCCU, any indemnity payments do not relieve borrowers of their obligation to PCCU nor would such payments preclude PCCU's right to future recoveries from the debtor. Therefore, as defined in ASC 460, the indemnification clause represents a general loss contingency in that it is an existing condition, situation or set of circumstances involving uncertainty as to possible loss to the Company that will ultimately be resolved when one or more future events occur or fail to occur. SHF's indemnity liability reflects SHF management's estimate of probable credit losses inherent under the agreement at the balance sheet date.

In addition to default-related credit losses, the Company continuously monitors all other circumstances pursuant to the agreement and identifies events that may necessitate a loss contingency under the Loan Servicing Agreement. A loss contingency is reported when it is both probable that a future event will confirm that a loss had been incurred on or before the related balance sheet date and the loss is reasonably estimable.

On March 29, 2023, the Company and PCCU entered into the Commercial Alliance Agreement that sets forth the terms and conditions of the lending-related and account-related services governing the relationship between the Company and PCCU and supersedes the Loan Servicing Agreement, as well as the Amended and Restated Support Services Agreement and the Amended and Restated Account Servicing Agreement.

xii. Property and Equipment, net

Property and equipment are recorded at historical cost, net of accumulated depreciation. Depreciation is provided over the assets' useful lives on a straight-line basis 4-5 years for equipment and furniture and fixtures. Repairs and maintenance costs are expensed as incurred.

Management periodically assesses the estimated useful life over which assets are depreciated or amortized. If the analysis warrants a change in the estimated useful life of property and equipment, management will reduce the estimated useful life and depreciate or amortize the carrying value prospectively over the shorter remaining useful life.

The carrying amounts of assets sold or retired and the related accumulated depreciation are eliminated in the period of disposal and the resulting gains and losses are included in the results of operations during the same period.

The Company capitalize certain costs related to software developed for internal-use, primarily associated with the ongoing development and enhancement of our technology platform. Costs incurred in the preliminary development and post-development stages are expensed. These costs are amortized on a straight-line basis over the estimated useful life of the related asset, generally five years.

xiii. Right of Use Assets and Lease Liability

The Company has entered into lease agreements for a certain facility and certain items of equipment, which provide the right to use the underlying asset and require lease payments over the term of the lease. At inception of the lease agreement, the Company assesses whether the agreement conveys the right to control the use of an identified asset for a period in exchange for consideration, in which case it is classified as a lease. Each lease is further analyzed to check whether it meets the classification criteria of a finance or operating lease. All identified leases are recorded on the consolidated balance sheet with a corresponding lease right-of-use asset, net, representing the right to use the underlying asset for the lease term and the operating lease liabilities representing the obligation to make lease payments arising from the lease. The Company has elected not to recognize lease assets and lease liabilities for short-term leases (leases with a term of 12 months or less) and leases of low-value assets. Lease right-of-use assets, net and lease liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term and include options to extend or terminate the lease when they are reasonably certain to be exercised. The present value of lease payments is determined primarily using the incremental borrowing rate based on the information available as of the lease commencement date.

Lease expense for operating leases is recorded on a straight-line basis over the lease term and variable lease costs are recorded as incurred. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants. Finance lease interest expense is recognized based on an effective interest method and depreciation of assets is recorded on a straight-line basis over the shorter of the lease term and useful life of the asset. Both operating and finance lease right of use assets are reviewed for impairment, consistent with other finite lived assets, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. After a right of use asset is impaired, any remaining balance of the asset is amortized on a straight-line basis over the shorter of the remaining lease term or the estimated useful life.

xiv. Goodwill and Other Intangible Assets

The Company’s methodology for allocating the purchase price of an acquisition is based on established valuation techniques that reflect the consideration of a number of factors, including a valuation performed by a third-party appraiser. Goodwill is measured as the excess of the cost of an acquired business over the fair value assigned to identifiable assets acquired and liabilities assumed. Goodwill is considered impaired when the estimated fair value of the reporting unit that was allocated the goodwill is less than its carrying value. If the estimated fair value of such reporting unit is less than its carrying value, goodwill impairment is recognized based on that difference, not to exceed the carrying amount of goodwill. A reporting unit is an operating segment or a component of an operating segment provided that the component constitutes a business for which discrete financial information is available and management regularly reviews the operating results of that component.

Finite-lived intangible assets are amortized over their estimated useful life, which is the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the Company. Intangible assets should be tested for impairment at the time of a triggering event, if one were to occur. Finite-lived intangible assets may be impaired when the estimated undiscounted future cash flows generated from the assets are less than their carrying amounts.

xv. Stock-based Compensation

The Company measures all equity-based payment arrangements to employees and directors in accordance with ASC 718, Compensation–Stock Compensation. The Company's stock-based compensation cost is measured based on the fair value at the grant date of the stock-based award. It is recognized as expense on a straight-line basis over the requisite service period for the entire award. Forfeitures are recognized as they occur. The Company estimates the fair value of each stock-based award on its measurement date using either the current market price of the stock or Black-Scholes option valuation model, whichever is most appropriate. The Black-Scholes valuation model incorporates assumptions such as expected term of the instrument, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date, by reference to the underlying terms of the instrument, and the Company's experience with similar instruments. Changes in assumptions used to estimate fair value could result in materially different results.

The shares of the Company have been listed on the Nasdaq stock exchange for a limited period of the time and also the stock price has dropped significantly from the date of listing, based on which the Company has considered the expected volatility at 100% for the purpose of stock compensation. The risk-free interest rates are based on quoted U.S. Treasury rates for securities with maturities approximating the awards' expected lives. The expected term of the options granted is calculated based on the simplified method by taking average of contractual term and vesting period the awards. The expected dividend yield is zero as the Company has never paid dividends and does not currently anticipate paying any in the foreseeable future.

xvi. Fair Value Measurements

The Company utilizes the fair value hierarchy to apply fair value measurements. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair values that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources, while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. The basis for fair value measurements for each level within the hierarchy is described below:

Level 1 — Quoted prices for identical assets or liabilities in active markets.

Level 2 — Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 —Valuations derived from valuation techniques in which one or more significant inputs to the valuation model are unobservable.

xvii. Revenue Recognition

SHF recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which SHF expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

Revenue is recorded at a point in time when the performance obligation is satisfied, and no contingencies exist. Revenue consists primarily of fees earned on deposit accounts held at PCCU but serviced by SHF such as bank account charges, onboarding income, account activity fee income and other miscellaneous fees.

In addition, SHF recognizes revenue from the Master Program Agreement. The Master Program Agreement is a non-exclusive and non-transferable right to implement and utilize the Safe Harbor Program. The Safe Harbor Program has two performance obligations; an implementation fee recognized when the contract is effective and a service fee recognized ratable over the contract term as the compliance program is executed.

Lastly, SHF also records revenue for interest on loans and investment income allocated by PCCU based on specific customer balances.

Amounts received in advance of the service being provided is recorded as a liability under deferred revenue on the consolidated balance sheets. Typical Safe Harbor Program contracts are three-year contracts with amounts due monthly, quarterly or annually based on contract terms.

Customers consist of financial institutions providing services to CRBs. Revenues are concentrated in the United States of America.

xviii. Contract Assets / Contract Liabilities

A contract asset is the Company's right to consideration in exchange for goods or services that the Company has transferred to a customer. Conversely, the Company recognizes a contract liability if the customer's payment of consideration precedes the reporting entity's performance.

As of September 30, 2023, the Company reported contract assets and contract liabilities of $2,115 and $63,402, respectively, from contracts with customers. As of December 31, 2022, the Company reported a contract asset and liability of $21,170 and $996, respectively.

xix. Warrants Liability

The Company accounts for the warrants assumed in the business combination in accordance with the guidance contained in ASC Topic 815, "Derivatives and Hedging" ("ASC 815"), under which warrants that do not meet the criteria for equity classification must be recorded as derivative liabilities. Accordingly, the Company classifies the warrants as liabilities carried at their fair value and adjusts the warrants to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until the warrants are exercised or expire, and any change in fair value is recognized in the condensed consolidated statement of operations.

xx. Forward purchase derivative

The Company accounts for the forward purchase derivative assumed in the business combination in accordance with the guidance contained in ASC Topic 815, "Derivatives and Hedging" ("ASC 815"). The Company classifies the forward purchase derivatives as liabilities carried at their fair value and adjusts the forward purchase derivatives to fair value at each reporting period. This derivative asset or liability is subject to re-measurement at each balance sheet date until the conditions under the forward purchase agreement are exercised or expire, and any change in fair value is recognized in the condensed consolidated statement of operations.

xxi. Earnings Per Share

Basic and diluted earnings per share are computed and disclosed in accordance with ASC Topic 260, Earnings Per Share. The Company utilizes the two-class method to compute earnings available to common shareholders. Under the two-class method, earnings are adjusted by accretion amounts to redeemable noncontrolling interests recorded at redemption value. The adjustments represent dividend distributions, in substance, to the noncontrolling interest holder as the holders have contractual rights to receive an amount upon redemption other than the fair value of the applicable shares. As a result, earnings are adjusted to reflect this in substance distribution that is different from other common shareholders. In addition, the Company allocates net earnings to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a non-forfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common shareholders (Refer to Note 16). Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocated to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period, as adjusted for the potential dilutive effect of non-participating share-based awards.

xxii. Income Tax

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are adjusted through the provision for income taxes as changes in tax laws or rates are enacted.

Prior to the merger, the Company was a pass-through entity for tax purposes. Effective September 28, 2022, the Company complies with the accounting and reporting requirements of ASC Topic 740, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

PCCU was exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. However, PCCU was subject to unrelated business income tax. The Carved-Out Operations were wholly owned by PCCU and therefore, were exempt from most federal and state income taxes. ASC Topic 740, "Income Taxes," under US GAAP clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. The Company's management has determined there are no material uncertain tax positions.

ASC 740-270-25-2 requires that an annual effective tax rate be determined and such annual effective rate applied to year to date income in interim periods. If management is unable to estimate a portion of its ordinary income, but is otherwise able to reliably estimate the remainder, ASC 740-270-25-3 provides that the tax applicable to that item be reported in the interim period in which the item occurs. The tax (or benefit) related to ordinary income (or loss) shall be computed at an estimated annual effective tax rate and the tax (or benefit) related to all other items shall be individually computed and recognized when the items occur. Management is unable to estimate a portion of its ordinary income and as a result had computed the company's tax provision in accordance with ASC 740-270-25-3.

ASC Topic 740 also prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if any, as income tax expense. There were no unrecognized tax benefits and no amounts accrued for interest and penalties as of September 30, 2023 and December 31, 2022. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

xxiii. Offering Costs

Offering costs consisted of legal, accounting, underwriting fees and other costs incurred that were directly related to the PIPE offering. Offering costs are allocated to the separable financial instruments issued based on a relative fair value basis, compared to total proceeds received. Offering costs associated with warrant liabilities are expensed as incurred, presented as offering costs allocated to warrants in the statements of operations. Offering costs associated with the Public Shares were charged to Parent-Entity Net Investment and Stockholders' Equity upon the completion of the Initial Public Offering.

xxiv. Recently Issued Accounting Standards

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective are not expected to have a material impact on the Company's financial position or results of operations upon adoption.

Adopted Standards

Simplifying the impairment test for Intangibles-Goodwill and Other

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350)—Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairments by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test referenced in Accounting Standards Codification ("ASC") 350, Intangibles – Goodwill and Other ("ASC 350"). As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04, as amended, is effective for annual reporting periods beginning after December 15, 2019, for SEC filers, excluding entities eligible to be smaller reporting companies (for whom the effective periods begin after December 15, 2022), including any interim impairment tests within those annual periods, with early application permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted ASU 2017-04 on January 1, 2023, with no material impact; however, the standard was applied to the impairment analyses noted in Note 5 of the financial statements below.

Current Expected Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduces a model based on expected losses to estimate credit losses for most financial assets and certain other instruments. In November 2019, the FASB issued ASU No. 2019-10 Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). The update allows the extension of the initial effective date for entities which have not yet adopted ASU No. 2016-02. The standard is effective for annual reporting periods beginning after December 15, 2022 for private companies and SEC filers classified as smaller reporting entities, with early adoption permitted. Entities apply the standard's provisions by recording a cumulative effect adjustment to retained deficit. The Company has adopted ASU 2016-13 as of January 1, 2023, utilizing the modified retrospective method.

CECL Transition Impact: The table below provides details on the transition impacts of adopting CECL. Other balance sheet lines not presented were not affected by CECL.

CECL Transition Impact:

Assets	**December 31, 2022**	**Transition Adjustment**	**January 1, 2023**
Loans receivable, gross	$ 1,323,479	$ -	$ 1,323,479
Less: Allowance for credit loss	(21,488)	(14,980)	(36,468)
	$ 1,301,991	**$ (14,980)**	**$ 1,287,011**
Liabilities & Equity	**December 31, 2022**	**Transition Adjustment**	**January 1, 2023**
Indemnity liability	$ 499,465	$ 566,341	$ 1,065,806
Retained deficit	(39,695,281)	(581,321)	(40,276,602)
	$ (39,195,816)	**$ (14,980)**	**$ (39,210,796)**

Lease Accounting

FASB ASU 2016-02, Leases, ("ASC 842") and related amendments, require lessees to recognize a right-of-use asset and a lease liability for substantially all leases and to disclose key information about leasing arrangements and aligns certain underlying principles of the lessor model with the revenue standard. The Company adopted this guidance during fiscal year 2022 using the optional transition method, which allows entities to apply the guidance at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings, if any, in the period of adoption with no restatement of comparative periods. At January 1, 2022 adoption date, there were no leases outstanding that met criteria for recognition. The Company has since recognized any leases in accordance with ASC 842 by recording right-of-use assets and operating lease liabilities on the balance sheet.

Troubled Debt Restructurings and Vintage Disclosures

This Accounting Standard Update (ASU 2022-02) eliminates the recognition and measurement guidance on troubled debt restructurings for creditors that have adopted ASC 326 and requires them to make enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. The new guidance also requires public business entities to present current period gross write-offs (on a current year-to-date basis for interim-period disclosures) by year of origination in their vintage disclosures. For entities that have adopted ASU 2016-13, this ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company did not adopt ASU 2022-02 as of December 31, 2022; however, it has adopted this standard as of January 1, 2023 and the ASU has not had a material impact on the Company's unaudited condensed consolidated financial statements.

Standards Pending to be Adopted

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

This Accounting Standard Update (ASU 2022-03) clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered when measuring fair value. Recognizing a contractual restriction on the sale of an equity security as a separate unit of account is not permitted. This ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect this ASU to have a material impact on its unaudited condensed consolidated financial statements.

Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

This Accounting Standard Update (ASU 2022-06) defers the Sunset Date of ASC Topic 848, Reference Rate Reform (Topic 848), which provides temporary optional relief in accounting for the impact of Reference Rate Reform. This ASU is effective upon issuance (December 21, 2022) and generally can be applied through December 31, 2024. The Company does not expect this ASU to have a material impact on its unaudited condensed consolidated financial statements.

Note 3. Business Combination

On September 28, 2022, the Business Combination detailed in Note 1 above was accounted for as a reverse recapitalization, with no goodwill or other intangible assets recorded, in accordance with GAAP. Under this method of accounting, NLIT was treated as the acquired company for financial reporting purposes. Accordingly, for accounting purposes, the Business Combination was treated as the equivalent of SHF issuing shares for the net assets of NLIT, accompanied by a recapitalization. The net assets of NLIT were recognized at fair value (which was consistent with carrying value), with no goodwill or other intangible assets recorded.

Other related events in connection with the Business Combination are summarized below:

- The 2,875,000 of Founder Class B Stock converted at the closing to an equal number of shares of Class A stock.

- Upon closing of the Business Combination, 11,386,139 shares of Class A Stock were issued to the Seller as set forth in and pursuant to the terms of the Purchase Agreement.

The Seller was due to receive a cash payment of $3.1 million at the consummation of the Business Combination, which represented the amount of SHF's cash on hand at July 31, 2021, less accrued but unpaid liabilities. In addition, pursuant to the terms of the purchase agreement, the Company is responsible for reimbursing the Seller for its transaction expenses.

- Offering costs consisted of legal, accounting, underwriting fees and other costs incurred that were directly related to the business combination was approximately $10.85 million.

- Approximately $56.9 million of the $70 million of cash proceeds due to PCCU was deferred and is due to the Seller. Approximately $21.9 million of the amount was due to PCCU beginning December 15, 2022. The residual $35 million is due in six quarterly instalments of $6.4 million thereafter. Interest accrues at an effective annual rate of approximately 4.71%. A sum of 1,200,000 founder shares were escrowed until the amount is paid in full.
- The Parent-Entity Net Investment appearing in the balance sheet of SHF amounting to $9,124,297 on the date of business combination was transferred to additional paid in capital.
- Immediately prior to the Closing, 20,450 shares of Series A Convertible Preferred were purchased by the PIPE Investors pursuant to the PIPE Securities Purchase Agreements for an aggregate value of $20,450,000. The shares of Series A Convertible Preferred were converted into 2,045,000 shares of Class A Stock at a purchase price of $10.00 per share of Class A Stock. Twenty (20) percent of the aggregate value was deposited into a third party escrow account for purposes of paying the PIPE Investors any required Registration Delay Payments. Upon the filing of registration statement 10 calendar days subsequent to closing, 17.5% of the escrow amount was released with the remaining amount once all securities are included in an effective registration statement.
- For tax purposes, the transaction is treated as a taxable asset acquisition, resulting in an estimated tax basis Goodwill balance of $44,102,572, creating a deferred tax asset reported as Additional Paid-in Capital in the equity section of the balance sheet as of the date of the business combination. There is not any goodwill for book reporting purposes as no goodwill or other intangible assets are to be recorded in accordance with GAAP.
- Preferred Stock: The Company is authorized to issue 1,250,000 preferred shares with a par value of $0.0001 per share with such designation rights and preferences as may be determined from time to time by the Company's Board of Directors. As of September 30, 2023, there were 3,811 preferred shares issued and outstanding and 14,616 preferred shares issued and outstanding on December 31, 2022. The holders of preferred stock shall be entitled to receive, and the Company shall pay, dividends on shares of preferred stock equal(on an as-if-converted-to-Class-A-Common-Stock basis) to and in the same form as dividends actually paid on shares of the Class A Common Stock when, as and if such dividends are paid on shares of the Class A Common Stock. No other dividends shall be paid on the preferred stock. The terms of the preferred stock provide for an initial conversion price of $ 10.00 per share of Class A Common Stock, which conversion price is subject to downward adjustment on each of the dates that are 10 days, 55 days, 100 days, 145 days and 190 days after the effectiveness of a registration statement registering the shares of Class A Common Stock issuable upon conversion of the preferred stock to the lower of the Conversion Price and the greater of (i) 80% of the volume weighted average price of the Class A Common Stock for the prior five trading days and (ii) $2.00 (the "Floor Price"), provided that, so long as a preferred stock holders continues to hold any preferred shares, such preferred stock holder will be entitled to receive the aggregate shares of Class A Common Stock that would be issuable based upon its initial purchase of preferred stock at the adjusted Conversion Price. Additionally, on January 25, 2023, at a special meeting of the Company's stockholders the reduction in the floor conversion price of the outstanding preferred stock from $2.00 per share to $1.25 per share.
- Class A Common Stock: The Company is authorized to issue up to 130,000,000 shares of Class A Common Stock with a par value of $0.0001 per share. Holders of the Company's Class A Common Stock are entitled to one vote for each share. As of December 31, 2022, and September 30, 2023 there were 23,732,889 and 46,593,317 shares, respectively, of Class A Common Stock issued or outstanding. As of September 30, 2023, and December 31, 2022, 3,669,504 Class A Common Stock are held by the purchasers under forward purchase agreement (dated June 16, 2022), by and among the Company and such purchasers.

- The fair value of net assets on September 28, 2022 in the books of NLIT are as follows:

Cash & Cash Equivalents	$	2,879
Prepaid Expense		15,000
Cash held in Trust		118,738,861
Deferred offering cost		266,240
Accounts Payable		(1,374,021)
Accrued Expense		(1,202,164)
Advance from sponsor		(1,150,000)
Deferred underwriter payable		(4,025,000)
Forward purchase derivative		(795,942)
Warrant Liability		(1,394,453)
Class A Common Stock subject to possible redemption		(79,259,819)
Fair value of net assets acquired	$	29,821,581

- The following table summarizes the total fair value of consideration:

Company's Class A common stock comprises of 11,386,139 shares	$	115,000,000
Cash consideration		13,050,199
Deferred cash consideration		56,949,801
Total fair value of consideration	$	185,000,000

Parent-Entity Net Investment: Parent-Entity Net Investment balance in the consolidated balance sheets represents PCCU's historical net investment in the Carved-Out Operations. For purposes of these unaudited condensed consolidated financial statements, investing requirements have been summarized as "Parent-Entity Net Investment" and represent equity as no cash settlement with PCCU is required. No separate equity accounts are maintained for SHS, SHF or the Branches.

On March 29, 2023, the Company and PCCU entered into a definitive transaction to settle and restructure the deferred obligations, including $56,949,800 into a five-year Senior Secured Promissory Note (the "Note") in the principal amount of $14,500,000 bearing interest at the rate of 4.25%; a Security Agreement pursuant to which the Company will grant, as collateral for the Note, a first priority security interest in substantially all of the assets of the Company; and a Securities Issuance Agreement, pursuant to which the Company will issue 11,200,000 shares of the Company's Class A Common Stock to PCCU (Refer to Note 9 to the financial statements below.)

Note 4. Acquisition

On November 15, 2022, the Company and its subsidiary entered into a series of merger and acquisition transactions resulting in the acquisition of 100% control of Rockview Digital Solutions Inc. d/b/a/ ABACA (collectively "Abaca"). This acquisition was completed in exchange for a combination of cash and the Company's shares. As part of the acquisition, the Company's Notes of $500,000 along with interest accrued until the date of acquisition were redeemed.

The acquisition increases the Company's customer base to include more than 1,000 unique depository accounts across 40 states and U.S. territories; adds Abaca's fintech platform to the Company's existing technology; increases the Company's financial institution client relationships and access to balance sheet capacity to five unique financial institutions strategically located across the United States; increases the Company's lending capacity; and nearly doubles the Company's team, adding to the existing talent pool of the cannabis industry's foremost financial services and financial technology experts.

Pursuant to the Abaca merger agreement, as amended, the Company acquired Abaca in exchange for $30,000,000, paid in a combination of cash and shares of the Company as follows:

(a) cash consideration in an amount equal to (i) $9,000,000 ($3,000,000 was payable at the closing of the Mergers (the "Merger Closing"), with an additional $3,000,000 payable at each of the one-year and two-year anniversaries of the Merger Closing), (collectively, the "Deferred Cash Consideration"); and

(b) Common Stock equal to the lesser of (1) 2,100,000 shares or (2) a number of shares equal to (i) $8,400,000, divided by (ii) the Closing Parent Trading Price and $12,600,000 (minus an outstanding note balance of $500,000, plus accrued interest) in shares of Class A Common Stock at the one-year anniversary of the Merger Closing based on a 10-day VWAP (collectively, the "Future stock consideration").

The Company measures the deferred cash consideration and future stock consideration at fair value on the acquisition date based on a report received from an independent valuation firm.

The following table summarizes the purchase price allocation:

Property, plant & equipment	$	27,117
Software		9,189
Cash & cash equivalents		245,524
Prepaid expense		23,061
Security deposit		675
Accounts receivables		232,265
Accounts Payable		(206,508)
Accrued Expense		(235,894)
Fair value of net assets acquired	**$**	**95,429**
Other intangibles		10,800,000
Goodwill		19,266,276
Deferred tax liabilities		(1,758,769)
Total purchase consideration	**$**	**28,402,936**

The following table summarizes the total fair value of consideration:

Cash paid	$	2,763,800
Deferred cash payment		5,452,424
Share issued – common stock (2,099,977 shares)		8,105,911
Settlement of pre-existing notes along with accrued interest		523,404
Future consideration settled in common stock		11,557,397
Fair value of consideration	**$**	**28,402,936**

At the date of acquisition, management allocated the initial purchase price based on the estimated fair value of the identifiable assets and liabilities assumed on the acquisition date. The pre-existing relationships settled were the Company's notes and related accrued interest with Abaca. Subsequently, the Company finalized the purchase price allocation and has adjusted the provisional values retrospectively to reflect changes to the assets and liabilities at the acquisition date. For the fair value of the identifiable intangible assets acquired, the Company used an income-based approach, which involves estimating the future net cash flows and applies an appropriate discount rate to those future cash flows.

Intangible assets were recorded at estimated fair value, as determined by management based on available information which includes a valuation prepared by an independent third party. The fair values assigned to identifiable intangible assets were determined through the use of the income approach and multi-period excess earnings methods. The major assumptions used in arriving at the estimated identifiable intangible asset values included management's estimates of future cash flows, discounted at an appropriate rate of return which is based on the weighted average cost of capital for both the company and other market participants. The useful lives of intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows. The estimated fair value of intangible assets and related useful lives as included in the purchase price allocation include:

		Amount	Useful life in Years
Market related intangible assets	$	2,100,000	8
Customer relationships		2,000,000	10
Developed technology		6,700,000	10
Fair value of consideration	**$**	**10,800,000**	

Goodwill has been recognized as a result of the specialized assembled workforce at Abaca.

Had the acquisition of Abaca occurred on January 1, 2022, there would not have been a significant impact on the consolidated operating sales revenues and net earnings for the three months and nine months ended September 30, 2022. Acquisition costs of $236,200 were incurred and recognized in acquisition related costs in the year of acquisition.

On October 26, 2023, the Company and the Abaca stockholders entered into the second amendment to the Abaca merger agreement to redefine the deferred cash consideration payable on the one-year and two-year anniversaries of the merger closing and the future stock consideration payable on the one-year anniversary of the merger closing (refer to footnote 23 "Subsequent Event").

Note 5. Goodwill and Finite-lived Intangible Assets

Goodwill

The Company's goodwill was derived from the transaction discussed in note 4, where the purchase price exceeded the fair value of the net identifiable assets acquired. Goodwill is tested for impairment at least annually on November 15th unless any events or circumstances indicate it is more likely that than not that the fair value of the goodwill is less than its carrying value.

On July 20, 2023, the Company agreed to terminate the Master Services and Revenue Sharing Agreement with Central Bank. Under the agreement, the Company provided expertise and intellectual property that allowed the Company and Central Bank to jointly serve the deposit banking needs of cannabis related businesses primarily located in Arkansas.

The agreement was originally executed by Rockview Digital Solutions, LLC, which was acquired by the Company in October 2022. The parties have agreed that termination will be effective as of October 1, 2023, allowing for an orderly transition that will have minimal impact on customer operations. The agreement, originally executed in 2018, was renewable on an annual basis and did not include any material early termination penalties.

The Company assessed several events and circumstances that could affect the significant inputs used to determine the fair value of the goodwill, including the significance of the amount of excess fair value over carrying value, consistency of operating margins and cash flows, budgeted-to-actual performance from prior year, overall change in economic climate, changes in the industry and competitive environment, and earnings quality and sustainability. The Company considered the decline in the operating margins and cash flow being goodwill impairment indicators and determined it appropriate to perform a quantitative assessment of the goodwill as of June 30, 2023.

The Company engaged a third-party valuation specialist to assist in the performance of the impairment analysis of the goodwill. For the interim quantitative goodwill impairment analysis performed as of June 30, 2023, the Company utilized an equally weighted combination of both an income and market approach to determine the fair value of the goodwill. The income approach utilizes a discounted cash flow method which is based on the present value of projected cash flows. The discounted cash flow models reflect company's assumptions regarding revenue growth rates, risk-adjusted discount rate, terminal period growth rate, economic and market trends and other expectations about the anticipated operating results of the Company. Under the market approach, the Company estimates the fair value based on market multiples of revenues derived from comparable publicly traded companies with operating characteristics similar to the Company. As a result of the interim goodwill impairment analysis, the goodwill was determined to have a carrying value that exceeded its fair value and therefore, $13.21 million noncash goodwill impairment charge was recognized in the Company's unaudited condensed consolidated statements of operations for the nine months ended September 30, 2023.

Fair value determination of the goodwill requires considerable judgment and is sensitive to changes in underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of the quantitative goodwill impairment tests will prove to be an accurate prediction of future results. Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of the goodwill may include such items as: (i) an increase in the weighted-average cost of capital due to further increases in interest rates, (ii) timing and success of estimated future income, it is possible that an additional impairment charge may be recorded in the future, which could be material.

As of December 31, 2022, and September 30, 2023, there were no negative indicators in the goodwill impairment that would impact the fair value of the goodwill.

The change in the carrying amount of goodwill from December 31, 2022, to September 30, 2023, is as follows:

December 31, 2022	$	19,266,276
Goodwill impairment		(13,208,276)
September 30, 2023	$	6,058,000

As of September 30, 2023, the Company's accumulated goodwill impairment was $13,208,276.

Finite-lived intangible assets

The Company reviews its finite-lived intangible assets when there is a triggering event. The Company performs impairment test by comparing the fair value of finite lived intangible assets to the carrying value. In the event the carrying value exceeds the fair value of the assets, the assets are written down to their fair value.

As of June 30, 2023, on account of the triggering event discussed in the goodwill analysis above, the Company performed a quantitative assessment of finite-lived intangible assets comprised of market related intangible, customer relationships and developed technologies.

In order to evaluate the fair value of the finite-lived intangible assets, a royalty method was applied for market related intangibles, a discounted cash flow method applied for customer relationships and a cost to re-create method for developed technologies. As a result, the Company determined that the fair value of market related intangibles and customer relationships were less than the carrying value on the reporting date. The Company recognized an impairment charge of $3.68 million in the unaudited condensed consolidated statements of operations for the nine months ended September 30, 2023. There was no impairment recognized for developed technologies as the fair value was in excess of the carrying value on the September 30, 2023, reporting date.

Following is the summary of the Company's finite-lived intangible assets as of September 30, 2023:

	Remaining Useful life in Years	**December 31, 2022 (A)**	**Acquired in Acquisition (B)**	**Amortization (C)**	**Impairment (D)**	**September 30, 2023 (A+B-C-D)**
Market related intangible assets	7.1 Years	2,066,918	$ -	$ 133,641	1,865,668	$ 67,609
Customer relationships	9.1 Years	1,974,795	-	101,612	1,814,795	58,388
Developed technology	6.1 Years	6,579,374	-	719,598	-	5,859,776
Total intangible assets		$ 10,621,087	**$ -**	$ 954,851	3,680,463	$ 5,985,773

Following is a summary of the Company's finite-lived intangible assets as of December 31, 2022:

	Remaining Useful life in Years	**December 31, 2021 (A)**	**Acquired in Acquisition (B)**	**Amortization (C)**	**Impairment (D)**	**December 31, 2022 (A+B-C-D)**
Market related intangible assets	8	-	$ 2,100,000	$ 33,082	-	$ 2,066,918
Customer relationships	10	-	2,000,000	25,205	-	1,974,795
Developed technology	7	-	6,700,000	120,626	-	6,579,374
Total intangible assets		**$ -**	**$ 10,800,000**	**$ 178,913**	**-**	**$ 10,621,087**

Note 6. Loans Receivable

Commercial real estate loans receivable, net consist of the following:

	September 30, 2023	December 31, 2022
Commercial real estate loans receivable, gross	$ 407,535	$ 1,432,560
Less: loan origination charges	(75,969)	(109,081)
Commercial real estate loans receivable, net	331,566	1,323,479
Allowance for credit losses	(14,433)	(21,488)
Commercial real estate loans receivable, net	$ 317,133	$ 1,301,991
Current portion	$ (12,166)	$ (51,300)
Noncurrent portion	$ 304,967	$ 1,250,691

Allowance for Credit Losses

The allowance for credit losses is maintained at a level believed to be sufficient to provide for estimated credit losses based on evaluating known and inherent risks in the loan portfolio. The Company's estimated the allowance for credit losses on the reporting date in accordance with the credit loss policy described in Note 2.

The allowance for credit losses consists of the following activity for the three and nine months ended September 30, 2023 and September 30, 2022:

Nine months ended September 30,	**September 30, 2023**	**September 30, 2022**
Allowance for credit losses		
Beginning balance	$ 21,488	$ 14,741
Cumulative effect from adoption of CECL	14,980	-
Charge-offs	-	-
Recoveries	-	-
(Benefits) Provision	(22,035)	6,905
Ending balance	$ 14,433	$ 21,646
Three months ended September 30,	**September 30, 2023**	**September 30, 2022**
Allowance for credit losses		
Beginning balance	$ 19,169	$ 21,801
Cumulative effect from adoption of CECL	-	-
Charge-offs	-	-
Recoveries	-	-
Benefits	(4,736)	(155)
Ending balance	$ 14,433	$ 21,646
Loans receivable:		
Individually evaluated for impairment	$ -	$ -
Collectively evaluated for impairment	407,535	1,443,060
	$ 407,535	$ 1,443,060
Allowance for credit losses:		
Individually evaluated for impairment	$ -	$ -
Collectively evaluated for impairment	14,433	21,646
	$ 14,433	$ 21,646

At September 30, 2023 and December 31, 2022, no loans were past due, classified as non-accrual or considered impaired.

Credit quality of loans:

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks credit quality indicators based on the loan payment status on monthly basis. All the loans outstanding on September 30, 2023 and December 31, 2022, are evaluated based on their payment status, which is considered as the most meaningful indicator of credit quality.

Note 7. Indemnification liability

As discussed at Note 9 to the unaudited condensed consolidated financial statements, and pursuant to PCCU Agreements, PCCU funds loans through a third-party vendor. Under the Commercial Alliance Agreement, PCCU's receives a servicing fee at the annual rate of 0.25% of the then-outstanding principal balance of each loan funded by PCCU and serviced by the Company, and a servicing fee at the annual rate of 0.35% of the then outstanding principal balance of each loan presented by the Company and both funded and serviced by PCCU. The below schedule details outstanding amounts funded by PCCU and categorized as either collateralized loans or unsecured loans and lines of credit.

	September 30, 2023	December 31, 2022
Secured term loans	$ 40,939,996	$ 18,400,000
Unsecured loans and lines of credit	421,640	498,042
Total loans funded by Parent	$ 41,361,636	$ 18,898,042

Secured loans contained an interest rate ranging from 7% to 12%. Unsecured loans and lines of credit contain variable rates ranging from Prime +1.50 % to Prime +6.00 %. Unsecured lines of credit had incremental availability of $525,000 and $996,958 at September 30, 2023 and December 31, 2022.

SHF has agreed to indemnify PCCU for losses on certain PCCU loans. The indemnity liability reflects SHF management's estimate of probable credit losses inherent under the agreement at the balance sheet date. The Company's estimated indemnity liability on the reporting date was calculated in accordance with the allowance for credit loss policy described in Note 2.

The indemnity liability activity are as follows:

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Beginning balance	$ 499,465	$ -
Cumulative effect from adoption of CECL	566,341	-
Charge-offs	-	-
Recoveries	-	-
Provision	399,649	377,005
Ending balance	$ 1,465,455	$ 377,005

All loans were current and considered performing at September 30, 2023 except one loan which was identified pursuant to potential default on January 5, 2023, and placed on non-accrual status. The Company's management was informed that an indemnified loan, having an outstanding balance of $3.1 million, was past due pursuant to its December 2022 payment. The guarantor on the loan stated to management that the borrower is out of money due to business losses. The Company is discussing workout options with the borrower.

The above-mentioned loan is now greater than 120 days delinquent and is included in the Company's CECL methodology to calculate management's best estimate of credit losses in relation to this loan and the overall loan portfolio on a collective basis.

Credit quality of indemnified loans:

As part of the on-going monitoring of the credit quality of the Company's indemnified loan portfolio, management tracks credit quality indicators based on the loan payment status on monthly basis. All the indemnified loans outstanding on September 30, 2023 and December 31, 2022 are evaluated based on their payment status, which is considered as the most meaningful indicator of credit quality.

SHF has agreed to indemnify PCCU from all claims related to SHF's cannabis-related business. Other than potential credit losses, no other circumstances were identified meeting the requirements of a loss contingency.

The provision for credit losses on the statement of operations consists of the following activity for the three months ended September 30, 2023 and September 30, 2022:

	September 30, 2023			September 30, 2022		
	Commercial real estate loans	Indemnity liability	Total	Commercial real estate loans	Indemnity liability	Total
Provision (benefit)	$ (4,736)	(196,196)	(200,932)	$ (155)	$ 88,500	$ 88,345

The provision for credit losses on the statement of operations consists of the following activity for the nine months ended September 30, 2023 and September 30, 2022:

	September 30, 2023			September 30, 2022		
	Commercial real estate loans	Indemnity liability	Total	Commercial real estate loans	Indemnity liability	Total
Provision (benefit)	$ (22,035)	$ 399,649	$ 377,614	$ 6,905	$ 377,005	$ 383,910

Note 8. Property and equipment, net

Property and equipment consist of the following:

	September 30, 2023	December 31, 2022
Equipment	$ 45,397	$ 45,397
Software	51,692	51,692
Improvement	71,635	71,635
Office furniture	215,504	7,070
	384,228	175,794
Less: accumulated depreciation	(257,865)	(126,180)
Property and equipment, net	$ 126,363	$ 49,614

Note 9. Related party transactions

Account Servicing Agreement

The Company had an Account Servicing Agreement with PCCU. SHF provides services as per the agreement to CRB accounts at PCCU. In addition to providing the services, SHF assumed the costs associated with the CRB accounts. These costs include employees to manage account onboarding, monitoring and compliance, rent and office expense, insurance and other operating expenses necessary to service these accounts. Under the agreement, PCCU agreed to pay SHF all revenue generated from CRB accounts. Amounts due to SHF were due monthly in arrears and upon receipt of invoice. This agreement was replaced and superseded in its entirety by Commercial Alliance Agreement entered on March 29, 2023, between PCCU and the Company.

Support Services Agreement

On July 1, 2021, SHF entered into a Support Services Agreement with PCCU. In connection with PCCU hosting the depository accounts and the related loans and providing certain infrastructure support, PCCU receives (and SHF pays) a monthly fee per depository account. In addition, 25% of any investment income associated with CRB deposits is paid to PCCU. This agreement was replaced and superseded in its entirety by Commercial Alliance Agreement entered on March 29, 2023, between PCCU and the Company.

Loan Servicing Agreement

Effective February 11, 2022, SHF entered into a Loan Servicing Agreement with PCCU. The agreement sets forth the application, underwriting and approval process for loans from PCCU to CRB customers and the loan servicing and monitoring responsibilities provided by both PCCU and SHF. PCCU receives a monthly servicing fee at the annual rate of 0.25% of the then-outstanding principal balance of each loan funded by PCCU. For the loans that are subject to this agreement, SHF originates the loans and performs all compliance analysis, credit analysis of the potential borrower, due diligence and underwriting and all administration, including hiring and incurring the costs of all related personnel or third-party vendors necessary to perform these services. Under the Loan Servicing Agreement, SHF has agreed to indemnify PCCU from all claims related to default-related credit losses as defined in the Loan Servicing Agreement. This agreement was replaced and superseded in its entirety by Commercial Alliance Agreement entered on March 29, 2023, between PCCU and the Company.

Commercial Alliance Agreement

On March 29, 2023, the Company and PCCU entered into the Commercial Alliance Agreement that sets forth the terms and conditions of the lending-related and account-related services governing the relationship between the Company and PCCU. The Commercial Alliance Agreement replaces and supersedes in their entirety the following agreements entered: the Amended and Restated Loan Servicing Agreement (dated September 21, 2022) between the Company and PCCU (the “Loan Servicing Agreement”); the Second Amended and Restated Account Servicing Agreement (“the “Account Servicing Agreement”, dated May 23, 2022, effective February 11, 2022); and the Second Amended and Restated Support Services Agreement (the “Support Agreement”, dated May 23, 2022, effective February 11, 2022).

The Commercial Alliance Agreement sets forth the application, underwriting, loan approval, and foreclosure process for loans from PCCU to borrowers that are cannabis-related businesses and the loan servicing and monitoring responsibilities provided by the Company and PCCU. In particular, the Commercial Alliance Agreement provides for procedures to be followed upon the default of a loan to ensure that neither the Company nor PCCU will take title to or possession of any cannabis-related assets, including real property, that may be collateral for a loan funded by PCCU pursuant to the Commercial Alliance Agreement. Under the Commercial Alliance Agreement, PCCU receives a servicing fee at the annual rate of 0.25% of the then-outstanding principal balance of each loan funded by PCCU and serviced by the Company. A servicing fee at the annual rate of 0.35% of the then-outstanding principal balance of each loan presented by the Company is also added, and both are funded and serviced by PCCU. In addition, the Company is obligated by the Commercial Alliance Agreement to indemnify PCCU from certain default-related loan losses (as fully defined in the Commercial Alliance Agreement).

In addition, the Commercial Alliance Agreement provides for certain fees to be paid to the Company's for certain identified account related services to include: all cannabis-related income, including all lending-related income (such as loan origination fees, interest income on CRB-related loans, participation fees and servicing fees), investment income, interest income, account activity fees, processing fees, flat fees, and other revenue generated from cannabis and multi-state hemp accounts that are hosted on PCCU's core system for a monthly fee equal to $30.96 per account in 2022, $25.32-$27.85 per account in 2023, and $26.08-$28.69 in 2024. In addition, as it pertains to CRB deposits held at PCCU, investment and interest income earned on these deposits (excluding interest income on loans funded by PCCU) will be shared 25% to PCCU and 75% to the Company. Finally, under the Commercial Alliance Agreement, PCCU will continue to allow its ratio of CRB-related deposits to total assets to equal at least 60% unless otherwise dictated by regulatory, regulator or policy requirements. The initial term of the Commercial Alliance Agreement is for a period of two years, with a one-year automatic renewal unless a party provides 120 days' written notice prior to the end of the term.

The below schedule demonstrates the ratio of CRB related loans funded by PCCU to the relative lending limits at September 30, 2023 and December 31, 2022.

	September 30, 2023	December 31, 2022
CRB related balance	$ 149,214,676	$ 161,138,975
Capacity at 60%	89,528,805	104,740,334
PCCU net worth	84,642,765	133,231,565
Capacity at 131.25%	111,093,629	174,866,429
Limiting capacity	89,528,805	174,866,429
PCCU loans funded	41,334,145	18,898,042
Amounts available under lines of credit	525,000	996,958
Incremental capacity	$ 47,669,660	$ 154,971,429

The revenue from the following agreements appearing in the statement of operations for the three and nine months ended September 30, 2023, and September 30, 2022, are as follows:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Account servicing agreement	$ -	$ 2,340,716	$ 3,261,284	$ 5,777,446
Commercial alliance agreement	3,380,128	-	6,791,346	-
Total	$ 3,380,128	$ 2,340,716	$ 10,052,630	$ 5,777,446

The operating expense from the following agreements appearing in the statement of operations for the three and nine months ended September 30, 2023, and September 30, 2022, are as follows:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Support services agreement	$ -	$ 204,535	$ 378,730	$ 420,085
Loan servicing agreement	25,120	9,160	53,790	14,264
Commercial alliance agreement	328,668	-	770,928	-
Total	$ 353,788	$ 213,695	$ 1,203,448	$ 434,349

Issuance of shares to PCCU

On March 29, 2023, the Company and PCCU entered into the following definitive transaction documents to settle and restructure the deferred obligation:

- A five-year Senior Secured Promissory Note (the "Note") in the principal amount of $14,500,000 bearing interest at the rate of 4.25% and a Security Agreement pursuant to which the Company will grant, as collateral for the Note, a first priority security interest in substantially all of the assets of the Company.

- A Securities Issuance Agreement, pursuant to which the Company issued 11,200,000 shares of the Company's Class A Common Stock to PCCU. Following the issuance of the Shares, PCCU owns approximately 46% of the outstanding Class A Common Stock. In connection with the Securities Issuance Agreement, the parties also entered into a Registration Rights Agreement and a Lock-Up Agreement.

- The Registration Rights Agreement requires the Company to register the Shares for resale pursuant to the Securities Act of 1933, as amended (the "Securities Act"); and the Lock-Up Agreement restricts PCCU from transferring the Shares until the earlier of (i) six (6) months after the date of the Securities Issuance Documents or (ii) the consummation of a transaction with an unaffiliated third party in which all of the Company's stockholders have the right to exchange their shares of Class A Common Stock for cash, securities, or other property; and

- A Commercial Alliance Agreement that sets forth the terms and conditions of the lending-related and account-related services governing the relationship between the Company and PCCU which supersedes the Loan Servicing Agreement, as well as the Amended and Restated Support Services Agreement and the Amended and Restated Account Servicing Agreement.

Operating leases

Effective July 1, 2021, SHF entered into a one-year gross lease with PCCU to lease space in its existing office at a monthly rent of $5,400. Effective July 1, 2022, the Company amended its existing lease to a month-to-month lease and therefore no asset or liability amounts are reported pursuant to ASC 842. The lease was terminated on February 1, 2023.

Advance from Sponsor

On June 27, 2022, Luminous Capital Inc., an affiliate of the Sponsor provided a non-interest-bearing advance (the "Advance") amounting to $ 1,150,000 to fund the operation of NLIT. The amount outstanding on September 30, 2023, and December 31, 2022, is $950,000 and $1,150,000, respectively and is presented within "accounts payable" in the condensed consolidated balance sheets.

Note 10. Due to Seller

Amounts due to seller were as follows:

	September 30, 2023	December 31, 2022
Due to Seller-Current (Unsecured)	$ -	$ 25,973,017
Due to Seller-long term (Unsecured)	-	30,976,783
Total loans funded by Parent	$ -	$ 56,949,800

As contemplated by the Unit Purchase Agreement, related to reverse acquisition of NLIT, the consideration paid to the seller parent (PCCU) in connection with the Business Combination consisted of an aggregate of $185,000,000, consisting of (i) 11,386,139 shares of the Company's Class A Common Stock with an aggregate value equal to$115,000,000 and (ii) $70,000,000 in cash, $56,949,800 of which was to be paid on a deferred basis (the "Deferred Cash Consideration").

The Deferred Cash Consideration was to be paid in one payment of $21,949,800 on or before December 15, 2022, and the $35,000,000 balance in six equal instalments of $6,416,667, payable beginning on the first business day following April 1,2023 and on the first business day of each of the following five fiscal quarters, for a total of $38,500,002.

On October 26, 2022, SHF Holdings, Inc. entered into a Forbearance Agreement (the "Forbearance Agreement") with PCCU and Luminous Capital USA Inc. ("Luminous"). As per the terms of the agreement, PCCU has agreed to defer all payments owed by the Company pursuant to the Purchase Agreement for a period of six (6) months from the date hereof while the Parties engage in good faith efforts to renegotiate the payment terms applicable to the Deferred Obligation (the "Forbearance Period").

The loan included 5% interest annualized using the simple interest method and an approximate 4.71% effective interest rate.

On March 29, 2023, the Company and PCCU entered into a definitive transaction to settle and restructure the deferred obligations, including $56,949,800 into a five-year Senior Secured Promissory Note (the "Note") in the principal amount of $14,500,000 bearing interest at the rate of 4.25%; a Security Agreement pursuant to which the Company will grant, as collateral for the Note, a first priority security interest in substantially all of the assets of the Company; and a Securities Issuance Agreement, pursuant to which the Company issued 11,200,000 shares of the Company's Class A Common Stock to PCCU. The breakdown of the liabilities settled under this transaction are as follows:

Due to Seller	$	56,949,800
Cash payment obligation under business combination		3,143,389
Business combination expense payable to seller		1,069,359
Interest accrued but not paid		1,337,843
Total deferred obligation		62,500,391
Less: Senior secured promissory note		14,500,000
Less: Change in deferred tax		9,593,983
Amount charged to Stockholders' Equity towards issuance of common stock	$	38,406,408

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Note 11. Senior Secured Promissory Note

	September 30, 2023	December 31, 2022
Senior Secured Promissory Note (current)	$ 2,731,369	$ -
Senior Secured Promissory Note (long term)	11,768,631	-
	$ 14,500,000	$ -

On March 29, 2023, the Company and PCCU entered into definitive transaction documents to settle and restructure the deferred obligation related to business Combination (Refer to Note 3) under which the Company has issued the five-year Senior Secured Promissory Note (the "Note") in the principal amount of $14,500,000 bearing interest at the rate of 4.25% and a Security Agreement pursuant to which the Company will grant, as collateral for the Note, a first priority security interest in substantially all of the assets of the Company.

The Note amount will be paid in 54 installments of principal and interest of $295,487 each starting from November 5, 2023, and for the period between March 29, 2023, to October 5, 2023, the Company has paid only interest portion.

The repayment schedule of the outstanding principal amount on September 30, 2023, is as follows:

Year of payment	
2023	$ 488,834
2024	3,006,992
2025	3,138,932
2026	3,274,966
2027	3,416,896
2028	1,173,380
Grand total	$ 14,500,000

Note 12. Leases

The Company has non-cancellable operating leases for facility space with varying terms. All of the active leases for facility space qualified for capitalization under FASB ASC 842, Leases. These leases have remaining lease terms between one to 7 years and may include options to extend the leases for up to ten years. The extension terms are not recognized as part of the right-of-use assets. The Company has elected not to capitalize leases with terms equal to, or less than, one year. As of September 30, 2023, and December 31, 2022, net assets recorded under operating leases were $898,945 and $1,016,198, respectively, and net lease liabilities were $1,021,253 and $1,028,233, respectively.

The Company analyzes contracts above certain thresholds to identify leases and lease components. Lease and non-lease components are not separated for facility space leases. The Company uses its contractual borrowing rate to determine lease discount rates when an implicit rate is not available. Total lease cost for the three and nine months ended September 30, 2023 and for the three and nine months ended September 30, 2022 included in Condensed Consolidated Statements of Operations, is detailed in the table below:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Operating lease cost	$ -	$ -	$ -	$ -
Short-term lease cost	87,951	30,759	246,694	82,087
Total lease cost	$ 87,951	$ 30,759	$ 246,694	$ 82,087

	Nine months ended September 30, 2023	Year ended December 31, 2022
ROU assets that are related to lease properties are presented as follows:		
Beginning balance	$ 1,016,198	$ -
Additions to right-of-use assets	-	1,029,226
Amortization charge for the period	(117,253)	(13,028)
Lease modifications	-	-
Ending balance	$ 898,945	$ 1,016,198
Further information related to leases is as follows:		
Weighted-average remaining lease term	3.67 Years	4.42 Years
Weighted-average discount rate	6.87 %	6.87 %

Future minimum lease payments as of September 30, 2023, and December 31, 2022, are as follows:

Year		
2023	$ 46,107	$ 91,303
2024	200,181	197,520
2025	218,287	217,925
2026	222,644	222,275
2027	227,081	226,705
Thereafter	329,688	348,926
Total future minimum lease payments	$ 1,243,988	$ 1,304,654
Less: Imputed interest	222,735	276,421
Operating lease liabilities	1,021,253	1,028,233
Less: Current portion	122,508	20,124
Non-current portion of lease liabilities	$ 898,745	$ 1,008,109

Note 13. Revenue

Disaggregated revenue

Revenue by type are as follows:

	Nine months ended September 30	
	2023	2022
Deposit, activity, onboarding income	$ 7,036,444	$ 4,179,323
Safe Harbor Program income	48,140	125,767
Investment income	4,023,940	935,993
Loan interest income	1,977,337	662,130

Total Revenue	$ 13,085,861	$ 5,903,213

	Three months ended September 30	
	2023	2022
Deposit, activity, onboarding income	$ 2,233,203	$ 1,369,559
Safe Harbor Program income	7,312	38,599
Investment income	1,186,246	558,860
Loan interest income	906,213	412,296
Total Revenue	$ 4,332,974	$ 2,379,314

Account fee income consists of deposit account fees, activity fees and onboarding income, which are recognized on periodic basis as per the fee schedule pursuant to commercial alliance agreement with PCCU. Safe Harbor Program income consists of outsourced support to other financial institutions providing banking to the cannabis industry whose income is recognized on the basis of usage as per the agreements. Investment income consist of interest earned on deposits with the Federal Reserve Bank pursuant to the commercial alliance agreement with PCCU. Loan interest income consist of interest earned on both direct and indemnified loans pursuant to a commercial alliance agreement with PCCU.

Note 14. Deferred underwriter fee

In connection with the business combination (refer to Note 3), the Company executed a note on September 28, 2022 with EF Hutton related to PIPE financing under which the Company was obligated to pay the principal sum of $2,166,250 on the following schedule: (i) $715,750 on October 14, 2022, and (ii) $362,625 on each of October 31, 2022, November 30, 2022, December 31, 2022, and January 31, 2023.

The Company made the payment of its first installment of $715,750 and defaulted on the remaining outstanding amounts. The outstanding balance of the note on December 31, 2022 was $1,450,500. On March 13, 2023, the Company and EF Hutton entered into a settlement agreement pursuant to which the Company paid $550,000 to EF Hutton in full settlement of the amount due and the difference of $900,500 has been accounted for in the "Condensed Consolidated Statements of Parent-Entity Net Investment and Stockholders' Equity."

Note 15. Commitments and contingencies

- The Company has issued an irrevocable Letter of Credit in favor of AFCO Credit Corporation ("AFCO"), for an aggregate amount of US $750,000, which can be drawn in the case of following events:
  - The Company continues to be in default, after 10 days' written notice, in the payment of any sums due to AFCO under a premium finance agreement dated on or about October 20, 2022, or
  - A case concerning the Company has been filed under title 11 of the United States Code and that, not more than 95 days before that case commenced, AFCO received loan payments amounting to not less than (total of payments received in the 95-day period prior to filing of the bankruptcy case), and AFCO is drawing an amount equal to the stated sum of the loan payments so received.
  - The Company is involved in, or has been involved in, arbitrations or various other legal proceedings that arise from the normal course of its business. The ultimate outcome of any litigation is uncertain, and either unfavorable or favorable outcomes could have a material impact on the Company's results of operations, balance sheets and cash flows due to defense costs, and divert management resources. The Company cannot predict the timing or outcome of these claims and other proceedings.

- In connection with the Company's initial public offering ("IPO"), the Company entered into a registration rights agreement dated June 23, 2021 with the Sponsor and the individuals serving as directors and executive officers of the Company at the time of the IPO. Pursuant to this registration rights agreement, the Company has agreed to register for resale upon the expiration of the applicable lock-up period the Company securities acquired by the Sponsor and such individuals in connection with the organization of the Company and the IPO.

- For a period beginning on June 28, 2021 and ending 12 months from the closing of the Business Combination, the Company has granted the underwriters a right of first refusal to act as lead-left book running manager and lead left manager for any and all future private or public equity, convertible and debt offerings during such period. In accordance with FINRA Rule 5110(f)(2)I(i), such right of first refusal shall not have a duration of more than three years from the effective date of our Registration Statement.

Note 16. Earnings Per Share

Basic net income (loss) per common share is calculated by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for potentially dilutive securities. Diluted net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of common shares and potentially dilutive securities outstanding for the period. For the Company's diluted earnings per share calculation, the Company uses the "if-converted" method for preferred stock and convertible debt and the "treasury stock" method for Warrants and Options.

As the Business Combination and related transactions are being reflected as if they had occurred at the beginning of the period presented, the calculation of weighted average shares outstanding for basic and diluted net income per share assumes that the shares issued in connection with the Business Combination have been outstanding for the entire period presented.

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net loss	$ (19,766,081)	$ 1,894,179
Weighted average shares outstanding – basic	38,725,273	18,715,912
Basic net (loss) income per share	$ (0.51)	$ 0.10
Weighted average shares outstanding – diluted	38,725,273	20,760,912
Diluted net (loss) income per share	$ (0.51)	$ 0.09
	Three months ended September 30, 2023	**Three months ended September 30, 2022**
Net loss	$ (748,067)	$ 1,056,235
Weighted average shares outstanding – basic	49,257,988	18,715,912
Basic net (loss) income share	$ (0.02)	$ 0.06
Weighted average shares outstanding – diluted	49,257,988	20,760,912
Diluted net (loss)income per share	$ (0.02)	$ 0.05

Certain share-based equity awards were excluded from the computation of dilutive loss per share because inclusion of these awards would have had an anti-dilutive effect. The following table reflects the awards excluded.

September 30, 2023 /s/ Sundie Seefried

Name: Sundie Seefried
Title: Chief Executive Officer

Warrants SHF MERGER SUB I

7,036,588 /s/ Sundie Seefried

Name: Sundie Seefried
Title: Chief Executive Officer

Share based payments SHF MERGER SUB II

2,588,650 /s/ Sundie Seefried

Name: Sundie Seefried
Title: Chief Executive Officer

Shares to be issued to Abaca acquisition ROCKVIEW DIGITAL SOLUTIONS, INC.

3,811,000 /s/ Dan Roda

Name: Dan Roda
Title: Chief Executive Officer

Conversion of preferred stock COMPANY STOCKHOLDERS' REPRESENTATIVE

6,433,839 /s/ Dan Roda

Name: Dan Roda

SHFxABACA LLC, successor in interest to ROCKVIEW DIGITAL SOLUTIONS, INC.

19,870,077

The holders of Series A Convertible Preferred Stock shall be entitled to receive, and the Company shall pay, dividends on shares of Series A Convertible Preferred Stock equal (on an as-if-converted-to-Class-A-Common-Stock basis) to and in the same form as dividends actually paid on shares of the Class A Common Stock when, as and if such dividends are paid on shares of the Class A Common Stock. No other dividends shall be paid on shares of Series A Convertible Preferred Stock.

Note 17. Forward Purchase Agreement

On June 16, 2022, NLIT entered into a Forward Purchase Agreement with Midtown East Management NL, LLC ("Midtown East"). Subsequent to entering into the Forward Purchase Agreement, the Company, NLIT, and Midtown East entered into assignment and novation agreements with Verdun Investments LLC ("Verdun") and Vellar Opportunity Fund SPV LLC – Series 1 ("Vellar"), pursuant to which Midtown East assigned its obligations as to 1,666,666 shares of the shares of Class A Stock to be purchased under the Forward Purchase Agreement to each of Verdun and Vellar. As contemplated by the Forward Purchase Agreement:

- Prior to the closing, Midtown East, Verdun and Vellar purchased approximately 3.8 million shares of NLIT Class A common stock directly from investors at market price in the public market. Midtown East and other counter parties waived their redemption rights with respect to the acquired shares.
- One business day following the closing, NLIT paid approximately $39.3 million from the cash held in its trust account to Midtown East; Verdun and Vellar for the shares purchased and approximately $0.3 million in related expense amounts.

- At the Maturity Date, Midtown East, Verdun and Vellar shall be entitled to (1) the product of the shares then held by them multiplied by the Forward Price, and (2) an amount, in cash or shares at the sole discretion of NLIT, equal to (a) in the case of cash, the product of (i)(x) 3.8 million shares less (y) the number of Terminated Shares and (ii) $2.00 (the “Maturity Cash Consideration”) and (b) in the case of shares, (i) the Maturity Cash Consideration divided by (ii) the VWAP Price for the 30 Scheduled Trading Days prior to the Maturity Date.

- At any time prior to the Maturity Date (defined as the earlier of i) the third anniversary of the Closing of the Business Combination, ii) the shares are delisted from The Nasdaq Stock Market or (iii) during any 30 consecutive Scheduled Trading Day-period following the closing of the Business Combination, the Volume Weighted Average Share Price (VWAP) Price for 20 Scheduled Trading Days during such period shall be less than $3.00 per share), Midtown East, Verdun and Vellar may elect an optional early termination to sell some or all of the shares (the “Terminated Shares”) of Class A Stock in the open market. If Midtown East, Verdun and Vellar sell any shares prior to the Maturity Date, the pro-rata portion of the Reset Price will be released from the escrow account and paid to SHF. Midtown East, Verdun and Vellar shall retain any proceeds in excess of the Reset Price that is paid to SHF.

- The trading value of the common stock combined with preferred shareholders electing to convert their preferred shares to common stock triggered a lower reset price embedded in the forward purchase agreement, or FPA. As of December 31, 2022, the Company had already called a special meeting to lower the make-whole price under the preferred share purchase agreement to $1.25/share. The Company, majority common shareholders and the preferred investors had entered into a voting agreement whereby the vote to approve the $1.25/share make-whole price was secured. Knowing the Company would ultimately be issuing shares to the preferred stockholders with a make whole issuance at $1.25/share compelled the company has recognized a reset price under the terms of the FPA of $1.25/share. These events significantly reduced the FPA receivable to approximately $4.6 million, from approximately $37.9 million reported at the end of the September 2022 quarter. The loss in value resulted not only in a compression of the balance sheet, but also $42.3 million charge to other expense on the statement of operations in the fourth quarter of 2022.

- The reconciliation statement of the common stock held by the parties are as follows:

	On the date of acquisition (September 28, 2022)		Shares sold during the period September 29, 2022 to December 31, 2022		As at December 31, 2022		
Name of the party	**Opening Shares (a)**	**Amount**	**Shares (b)**	**Amount**	**Shares (c=a-b)**	**Rest price (iii)**	**Amount (c x iii)**
Vellar	1,025,000	$ 10,583,246	53,796	$ 524,472	971,204	1.25	$ 1,214,005
Midtown East	1,599,496	16,514,986	81,572	832,850	1,517,924	1.25	1,897,405
Verdun	1,180,376	12,187,522	2,127	21,962	1,178,249	1.25	1,472,811
Grand total	**3,804,872**	**39,285,754**	**137,495**	**1,379,284**	**3,667,377**		**$ 4,584,221**

		As at December 31, 2022		Shares sold during the nine months ended September 30, 2023		As at September 30, 2023		
S.no	**Name of the party**	**Opening Shares (a)**	**Amount**	**Shares (b)**	**Amount**	**Shares (c=a-b)**	**Rest price (iii)**	**Amount (c x iii)**
1	Vellar	971,204	$ 1,214,005	-	$ -	971,204	1.3	$ 1,214,005
2	Midtown East	1,517,924	1,897,405	-	-	1,517,924	1.3	1,897,405
3	Verdun	1,178,249	1,472,811	-	-	1,178,249	1.3	1,472,811
Grand total		**3,667,377**	**$ 4,584,221**	-	$ -	**3,667,377**		**$ 4,584,221**

Note 18. Warrant Liability

Public and Private Placement Warrants

As of September 30, 2023, and December 31, 2022, the Company has 5,750,000 Public warrants and 264,088 Private Placement Warrants.

The Public and Private Placement Warrants may only be exercised for a whole number of shares.

The Public and Private Placement Warrants became exercisable on September 28, 2022, the date of the Business Combination and will expire on September 28, 2027, or earlier upon redemption or liquidation.

No warrant will be exercisable for cash or on a cashless basis, and the Company will not be obligated to issue any shares to holders seeking to exercise their warrants, unless the issuance of the shares upon such exercise is registered or qualified under the securities laws of the state of the exercising holder, or an exemption from registration is available.

Redemption of warrants become exercisable when the price per Class A Common Stock equals or exceeds $18.00. Once the warrants become exercisable, the Company may redeem the warrants:

- in whole and not in part;
- at a price of $0.01 per warrant;
- upon not less than 30 days' prior written notice of redemption to each warrant holder; and
- if, and only if, the reported last sale price of the Class A Common Stock equals or exceeds $18.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like and certain issuances of Class A Common Stock and equity-linked securities) for any 20 trading days within a 30-trading day period commencing no earlier than the date the warrants become exercisable and ending on the third business day before the date on which the Company sends the notice of redemption to the warrant holders.

If and when the warrants become redeemable by the Company, the Company may exercise its redemption rights; this is also the case if the Company is unable to register or qualify the underlying securities for sale under all applicable state securities laws.

If the Company calls the warrants for redemption, management will have the option to require all holders that wish to exercise the Warrants to do so on a "cashless basis," as described in the warrant agreement. The exercise price and number of shares of Class A Common Stock issuable upon exercise of the warrants may be adjusted in certain circumstances including in the event of a stock dividend, or recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for issuance of Class A Common Stock at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the warrants.

The private placement warrants are identical to the public warrants, except that the private placement warrants and the Class A Common Stock issuable upon the exercise of the private placement warrants were not transferable, assignable or saleable, subject to certain limited exceptions. Additionally, the private placement warrants are exercisable on a cashless basis and non-redeemable so long as they are held by the initial purchasers or their permitted transferees. If the private placement warrants are held by someone other than the initial purchasers or their permitted transferees, the private placement warrants will be redeemable by the Company and exercisable by such holders on the same basis as the public warrants.

PIPE Warrants

As of September 30, 2023 and December 31, 2022, the Company has 1,022,500 PIPE Warrants.

The PIPE Warrants have an exercise price of $11.50 per share of Class A Common Stock to be paid in cash (except if the shares underlying the warrants are not covered by an effective registration statement after the six-month anniversary of the closing date, in which case cashless exercise is permitted), subject to adjustment to a price equal to the greater of (i)125% of the conversion price if at any time there is an adjustment to the Conversion Price and the exercise price after such adjustment is greater than 125% of the Conversion Price as adjusted and (ii) $5.00. The PIPE Warrants are also subject to adjustment for other customary adjustments for stock dividends, stock splits and similar corporate actions. The PIPE Warrants are exercisable for a period of five years following the Closing, or September 28, 2027. After exercise of a PIPE Warrant, the Company may be required to pay certain penalties if it fails to deliver the Class A Common Stock within a specified period of time.

Note 19. Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy ranks the inputs used in measuring fair value as follows:

- Level 1 – Observable, unadjusted quoted prices in active markets
- Level 2 – Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability
- Level 3 – Unobservable inputs with little or no market activity that require the Company to use reasonable inputs and assumptions

The Company uses fair value measurements to record adjustments to certain financial assets and liabilities on a recurring basis. The Company may be required to record certain assets at fair value on a nonrecurring basis in specific circumstances, such as evidence of impairment. Methodologies used to determine fair value might be highly subjective and judgmental in nature; therefore, valuations may not be precise. If the Company determines that a valuation technique change is necessary, the change is assumed to have occurred at the end of the respective reporting period.

Assets and Liabilities Reported at Fair Value on a Recurring Basis

Public Warrants:

Public warrants are recorded at fair value on a recurring basis. The Company obtains exchange traded price, of Level 1 inputs, based on observable data to value these warrants.

Private Placement Warrants:

Private Placement Warrants are recorded at fair value on a recurring basis. The Company values these Level 3 derivatives using observable data (Black-Scholes model).

PIPE Warrants:

PIPE Warrants are recorded at fair value on a recurring basis. The Company values these Level 3 derivatives using observable data (Black-Scholes model).

Forward purchase option derivatives:

Forward purchase option derivatives are recorded at fair value on a recurring basis. The Company values these Level 3 derivatives using observable data (Black-Scholes model).

The following tables summarize financial assets and liabilities recorded at fair value on a recurring basis, by the level of valuation inputs in the fair value hierarchy on September 30, 2023 and December 31,2022:

September 30, 2023:

		Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Unobservable Inputs (Level 3)
Description				
Liabilities:				
Public warrants	$	797,329	797,329	-
Private placement warrants		36,620	-	36,620
PIPE warrants		250,359	-	250,359
Forward purchase option derivative		7,309,580	-	7,309,580

December 31, 2022:

		Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Unobservable Inputs (Level 3)
Description				
Liabilities:				
Public warrants	$	361,100	361,100	-
Private placement warrants		19,110	-	19,110
PIPE warrants		286,300	-	286,300

Forward purchase option derivative	7,309,580	-	7,309,580

Assets Measured at Fair Value on a Nonrecurring Basis

There were no assets or liabilities recorded at fair value on a nonrecurring basis for the period ended September 30, 2023 and for the year ended as on December 31, 2022, respectively.

Fair Value of Financial Instruments

The Company uses various methodologies and assumptions to estimate the fair value of certain financial instruments. With the exceptions of loans receivable, warrants and forward purchase option derivatives, the Company considers the carrying amounts of its financial instruments (cash, accounts receivable and accounts payable) in the balance sheet to approximate fair value because of the short-term or highly liquid nature of these financial instruments.

The following tables present the carrying amounts and fair values of financial instruments, by the level of valuation inputs in the fair value hierarchy, as of the dates indicated:

	As on September 30, 2023				
	Carrying amount	**Fair value**	**Fair value measurement using**		
			Level 1	**Level 2**	**Level 3**
Assets					
Cash and cash equivalents	$ 8,948,644	$ 8,948,644	$ 8,948,644	-	$ -
Forward purchase receivables	4,584,221	4,584,221	4,584,221	-	-
Loans	317,133	213,889	-	-	213,889
Liabilities					
Deferred consideration	17,580,038	17,580,038	17,580,038	-	-
Senior Secured Promissory note	14,500,000	14,500,000	11,204,453	-	-
Indemnity liability	1,465,455	1,465,455	1,465,455	-	-
Public warrants	797,329	797,329	797,329	-	-
Private placement warrants	36,620	36,620	-	-	36,620
PIPE warrants	250,359	250,359	-	-	250,359
Forward purchase derivative	7,309,580	7,309,580	-	-	7,309,580

	As on December 31, 2022				
	Carrying amount	Fair value	Fair value measurement using		
			Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 8,390,195	$ 8,390,195	$ 8,390,195	$ -	$ -
Forward purchase receivables	4,584,221	4,584,221	4,584,221		-
Loans	1,301,991	1,241,761	-	-	1,241,761
Liabilities					
Deferred consideration	14,359,822	14,359,822	14,359,822	-	-
Due to seller - current portion	25,973,017	25,973,017	25,973,017	-	-
Due to seller - long term position	30,976,783	30,976,783	30,976,783	-	-
Deferred underwriter fee payable	1,450,500	1,450,500	1,450,500	-	-
Indemnity liability	499,465	499,465	499,465	-	-
Public warrants	361,100	361,100	361,100	-	-
Private placement warrants	19,110	19,110	-	-	19,110
PIPE warrants	286,300	286,300	-	-	286,300
Forward purchase derivative	7,309,580	7,309,580	-	-	7,309,580

The change in the assets measured at fair value on a recurring basis for which the Company have utilized Level 3 inputs to determine fair value are presented in the following table:

	For the nine months ended September 30, 2023		
	PIPE Warrants	Private Placement Warrants	Forward Purchase Derivative
Balance at the beginning of the period	$ 286,300	$ 19,110	$ 7,309,580
Fair value adjustment	(35,941)	17,510	-
Balance at the end of the period	$ 250,359	$ 36,620	$ 7,309,580

The private placement warrants and PIPE warrants are measured at fair value using a Black-Scholes model. As of September 30, 2023, these warrants were valued for Level 3 inputs, which are based on observable data to value these derivatives.

The fair value of the forward purchase derivative was estimated using a Monte-Carlo Simulation in a risk-neutral framework (a special case of the Income Approach). Specifically, the future stock price is simulated assuming a Geometric Brownian Motion ("GBM"). For each simulated path, the forward purchase value is calculated based on the contractual terms and then discounted at the term-matched risk-free rate. Finally, the value of the forward is calculated as the average present value over all simulated paths. The Company measured the fair value of the forward purchase option derivative upon execution of the Forward Purchase Agreement and as of December 31, 2022, with the respective fair value adjustments recorded within its Statements of Operations. The Company will continue to monitor the fair value of the forward option derivative each reporting period with subsequent revisions to be recorded in the Statements of Operations.

The following table provides quantitative information regarding Level 3 fair value measurements inputs as it relates to the private placement warrants and public warrants as of their measurement dates:

As on September 30, 2023	PIPE Warrants	Private Placement Warrants
Exercise price	$ 5.00	$ 11.50
Share Price	$ 0.80	$ 0.80
Expected term (years)	3.99	3.99
Volatility	88.58 %	88.58 %
Risk-free rate	5.31 %	5.31 %

As on December 31, 2022	PIPE Warrants	Private Placement warrants
Exercise price	$ 5.00	$ 11.50
Share Price	$ 1.78	$ 1.78
Expected term (years)	4.74	4.74
Volatility	46.00 %	46.00 %
Risk-free rate	4.00 %	3.98 %

The following table provides quantitative information regarding Level 3 fair value measurements inputs as it relates to the forward purchase derivatives as of their measurement dates on September 30, 2023 and December 31, 2022:

	September 30, 2023
Reset Price	$ 5.00
Expected term (years)	1.99
Additional maturity consideration per share	$ 2.00
Volatility	46 %
Risk-free rate	4.2 %
Risk-adjusted discount rate	13.4 %
	December 31, 2022
Reset Price	$ 5.00
Expected term (years)	2.74
Additional maturity consideration per share	$ 2.00
Volatility	46 %
Risk-free rate	4.2 %
Risk-adjusted discount rate	13.4 %

Note 20. Tax

For the nine months ended September 30, 2023, the Company recorded income tax benefit of $1,199,483 for continuing operations. The effective tax rate of (5.72%) for the nine months ended September 30, 2023 varied from the statutory United States federal income tax rate of 21.0% primarily due to the effect of state income taxes, net of the federal benefit, goodwill impairment for book purposes, adjustments to the fair market value of warrant liabilities and the establishment of a valuation allowance on capital loss carryovers. The Company has net deferred tax assets of $51,593,302 and $43,198,800 as of December 31, 2022, and September 30, 2023, respectively. The Company has established a valuation allowance of $72,914 against their capital loss carryovers. The Company considers their remaining deferred tax assets to be realizable.

The Company recognizes income tax benefits from uncertain tax positions where the realization of the ultimate benefit is uncertain. As of both December 31, 2022 and September 30, 2023, the Company has no unrecognized income tax benefits.

Note 21. 401(k) Plan

The Company offers to all employees a tax-qualified retirement contribution plan, with the Company's 100% matching contribution up to 4% of a participant's eligible compensation. The Company's consolidated matching contributions for the three and nine months ended September 30, 2023, amounting to $14,866 and $48,955, and September 30, 2022, amounting to $13,517 and $38,947, respectively.

Note 22. Share based compensation

2022 Equity Incentive Plan

Share-based compensation expense recognized for the three months ended September 30, 2023, and September 30, 2022, are $422,294 and $0 respectively and nine months ended September 30, 2023 and September 30, 2022 totaled $2,951,336 and $0 respectively.

The 2022 Plan was approved by the Company's stockholders on June 28, 2022. The 2022 Plan permits the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonus awards, and performance compensation awards. The Company has not issued stock appreciation rights, restricted stock, stock bonus awards, or performance compensation awards in the nine months ended September 30, 2023, and September 30, 2022. In conjunction with the 2023 Plan, as of September 30, 2023, the Company had granted stock options and restricted stock units which are described in more detail below.

Stock options

Stock options are awarded to encourage ownership of the Company's common stock by employees and to provide increased incentive for employees to render services and to exert maximum effort for the success of the Company. The Company's incentive stock options generally permit net-share settlement upon exercise. The option exercise price, vesting schedule and exercise period are determined for each grant by the administrator (person appointed by board to administer the stock plans) of the applicable plan. The Company's stock options generally have a 10-year contractual term.

The assumptions used to determine the fair value of options granted in the nine months ended September 30, 2023, using the Black-Scholes-Merton model are as follows:

Dividend yield	0	%
Risk-free interest rate	3.62% to 4.23	%
Expected volatility (weighted-average and range, if applicable)	100	%
Expected term	5.75 to 6.00 years	

The expected term of the options granted is calculated based on the simplified method by taking average of contractual term and vesting period the awards. The shares of the Company have been listed on the stock exchange for a limited period of the time and the share price has also dropped significantly from the date of listing, based on these factors, Management has considered the expected volatility at 100% for the current period. The risk-free interest rate used is the current yield on US Treasury notes, with a term equal to the expected term of the options at the grant date. The expected dividend yield is based on annualized dividends on the underlying share during the expected term of the option.

A summary of the Company's stock option activities and related information for the nine months ended September 30, 2023, is as follows:

Stock Option	**No. of Stock Option**	**Weighted-** Average Grant Date Fair Value Per Stock Option	**Aggregate Fair Value**
December 31, 2022	2,170,000	3.53	7,665,707
Granted	336,730	$ 1.03	345,835
Exercised	-	-	-
Expired	-	-	-
Cancelled / Forfeited	(251,880)	3.62	(911,038)
September 30, 2023	2,254,850	$ 3.15	7,100,504

On September 30, 2023, there were no unrecognized compensation costs related to non-vested stock options to be recognized. Share based compensation did not impact on Company's cash flow in nine months ended September 30, 2023 or year ended December 31, 2022.

Restricted Stock Units ("RSUs")

A summary of the Company's RSU activities and related information for the nine months ended September 30, 2023, is as follows:

Restricted Stock Units	No. of RSU	Weighted-Average Grant Date Fair Value Per RSU	Aggregate Fair Value
December 31, 2022	-	$ -	$ -
Granted	1,600,028	0.99	1,577,926
Exercised	-	-	-
Expired			
Cancelled / Forfeited	(10,300)	1.31	(13,493)
September 30, 2023	1,589,728	$ 0.98	1,564,433

The fair value as of the respective vesting dates of RSUs that vested during the nine months ended September 30, 2023 and December 31, 2022 was $1,246,850 and $0. As of September 30, 2023, there is $317,583 of unrecognized share-based compensation expense related to RSU awards.

Note 23. Subsequent events

On October 26, 2023, the Company and the Abaca stockholders entered into the second amendment to the Abaca merger agreement (refer to footnote 4) to redefine the deferred consideration payable and the future stock consideration payable on the one-year anniversary of the merger closing.

Pursuant to the second amendment to the agreement and plan of merger agreed to with the stockholders of Abaca, the deferred purchase consideration and the future stock consideration are rescheduled as follows:

(a) The future stock consideration payable on the first anniversary of the merger amounts to $12,600,000 minus the Closing Note Balance and the Working Capital divided by $2.00 per share. As a result, 5,835,822 shares of common stock shall be issued as the stock consideration on the first anniversary of the merger.

(b) No changes were made to the cash payments of $3,000,000 payable at each of the one-year and two-year anniversaries of the original closing. The second amended added a Third Anniversary Consideration Payment of $1,500,000 which will be payable in cash, stock, or a combination of both at the Company's discretion.

(c) The Company shall issue stock warrants equal to 5,000,000 shares of the Company's common stock for an initial exercise price of $2.00 per share.

(d) The Company has agreed to prepare and file a Registration Statement within 45 calendar days of the execution of the Second Amendment registering the resale of all Registrable Securities.

(e) The Company has also granted the Abaca Stockholders' Representative the right to nominate 3 qualified candidates for the Company's Board of Directors to the Company's Nominating and Corporate Governance Committee ("NCG Committee") of which the NCG Committee shall select and nominate 1 candidate to the Company's Board of Directors in the Company's 2024 annual proxy statement.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

The following discussion and analysis should be read together with our consolidated financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained in this report, including statements regarding future operations, are forward-looking statements. In some cases, forward-looking statements may be identified by words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "could," "would," "expect," "objective," "plan," "potential," "seek," "grow," "target," "if," and similar expressions intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations, objectives, and financial needs.

Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in the sections entitled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the SEC. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

References in this section to "we," "us," or "our" refer to SHF Holdings, Inc (herein referred to as the "Company"). References to "management" refer to our officers and board of managers.

Overview

Founded in 2015 by PCCU (please see "Business Reorganization" below for a description of SHF's organization), SHF's mission is to provide access to reliable and compliant financial services for the legal cannabis industry. Through that mission and as an early leader with over ten years of experience, SHF is a leading provider of access to reliable and compliance driven banking, lending and other financial services to financial institutions desiring to provide those services to the cannabis industry.

Through our proprietary platform and on a multi-state level, SHF provides access to the following banking related services through PCCU and other financial institutions:

- Business checking and savings accounts
- Cash management accounts
- Savings and investment options
- Commercial lending
- Courier services (via third party relationships)
- Remote deposit services
- Automated Clearing House (ACH) payments and origination
- Wire payments

Our services allow Cannabis Related Businesses (herein referred to as "CRBs") to obtain services from financial institutions that allow them to run their business more efficiently and effectively with improved financial insight into their business and access to resources to help them grow. Due to limited availability of payment and other banking solutions for the cannabis industry, most businesses transact with high volumes of cash. Our fintech platform benefits CRBs and financial institutions by providing CRBs with access to financial institutions and financial institutions access to increased deposits with the comfort of knowing that those deposits have been compliantly monitored and validated. By facilitating the daily deposits of cash receipts between CRBs and financial institutions, the risks associated with high cash on hand are mitigated, creating a safer atmosphere for the CRB's employees and the financial institutions at which the deposit accounts are held. Because SHF is not a financial institution, SHF does not hold customer deposits. All deposit accounts are held by SHF's financial institution clients and all transmissions of funds to and from deposit accounts are handled directly by the financial institutions. In an industry with limited capital and financing options, we offer access to loan options at what we believe to be competitive rates, often with less punitive terms than the current industry average. Our financial institution clients offer loan options including senior secured debt and operating lines of debt. Collateral types include real estate, equipment, and other business assets. We also provide access to lending options for ancillary service providers serving the cannabis industry as these businesses also can have difficulty finding reliable financial services.

To ensure access to consistent and dependable banking access to CRBs, we provide our compliance, validation and monitoring services to financial institutions in a compliance driven environment ensuring strict adherence to the Bank Secrecy Act/FinCEN guidance and related anti money laundering provisions. Since inception, SHF has assisted PCCU in processing more than $20 billion in cannabis related funds and, through its relationship with PCCU and other financial institutions, SHF has successfully navigated 16 state and federal banking exams.

In strategically selected geographic areas, SHF licenses to other financial institutions its proprietary software and Safe Harbor Program (the “Program”) to provide compliance-related services to CRBs. As part of the Program, we provide the following to financial institutions interested in licensing the Program to assist in compliant cannabis banking:

- Initial customer due diligence – Know Your Customer
- Customer application management
- Program management support
- Compliance monitoring
- Regulatory exam assistance

Business Reorganization

PCCU’s Board of Directors approved the contribution of certain assets and operating activities associated with operations from both the Branches and Safe Harbor Services (“SHS” or “Oldco”), a wholly-owned subsidiary of PCCU, to SHF Holding, Co., LLC. SHF Holding, Co., LLC then contributed the same assets and related operations to SHF, LLC with PCCU’s investment in SHF, LLC maintained at the SHF Holding, Co., LLC level (the “reorganization”). The reorganization effectively occurred July 1, 2021. In conjunction with the reorganization, all of Branches’ employees and certain PCCU employees were terminated from PCCU and hired as SHF, LLC employees. Collectively, Oldco, the Branches and SHF, LLC represent the “Carved-Out Operations.” After the reorganization, SHF, LLC contains the entirety of the Carved-Out Operations and Oldco was dissolved. In addition, effective July 1, 2021, the entity entered into an Account Servicing Agreement and Support Servicing Agreement which were subsequently amended and restated and then superseded and replaced in March 2023 by a Commercial Alliance Agreement.

On February 11, 2022, SHF, LLC and SHF Holding Co., LLC, the sole member of SHF, LLC, and Partner Colorado Credit Union (“PCCU”), the sole member of SHF Holding, Co., LLC, entered into a definitive Unit Purchase Agreement (herein referred to as the “Business Combination”) with Northern Lights Acquisition Corp. (“NLIT”), a special purpose acquisition company, and its sponsor, 5AK, LLC. Subsequent to the completion of the transaction, NLIT changed its name to “SHF Holdings, Inc.” (herein referred to as the “Company”). On September 19, 2022, the parties entered into the first amendment to the Unit Purchase Agreement to extend the date by which the closing had to occur from August 31, 2022 until September 28, 2022 and provide for the deferral of $30 million of the $70 million in cash due at the closing. On September 22, 2022, the parties entered into the second amendment to the Unit Purchase Agreement to provide for the deferral of a total of $50 million of the $70 million due at the closing. On September 28, 2022, the parties entered into the third amendment to the Unit Purchase Agreement to provide for the deferral of a total of $56,949,800 of the $70,000,000 due at the closing.

Pursuant to the Unit Purchase Agreement, upon the closing of the transaction, NLIT purchased all of the issued and outstanding membership interests of SHF in exchange for an aggregate of $185,000,000, consisting of (i) 11,386,139 shares of the entity’s Class A common stock with an aggregate value equal to $115,000,000 and (ii) $70,000,000 in cash. At transaction close, 1,831,683 shares of the Class A Common Stock were deposited with an escrow agent to be held in escrow for a period of 12 months following the closing date to satisfy potential indemnification claims of the parties. In addition, $3,143,388 in cash and cash equivalents representing the amount of cash on hand at July 31, 2021, less accrued but unpaid liabilities, were paid to PCCU at the final transaction close.

Effective February 11, 2022, the Company entered into a Loan Servicing Agreement with PCCU. The agreement sets forth the application, underwriting and approval process for loans from PCCU to CRB customers and the loan servicing and monitoring responsibilities provided by both PCCU and the Company. For the loans subject to this agreement, the Company underwrites the loans and performs all compliance analysis, credit analysis of the potential borrower, due diligence and underwriting and all administration, including hiring and incurring the costs of all related personnel or third-party vendors necessary to perform these services. PCCU receives a monthly servicing fee at an annual rate of 0.25% of the then-outstanding principal balance of each loan funded by PCCU. Under the Loan Servicing Agreement, the Company has agreed to indemnify PCCU from all claims related to default-related credit losses as defined in the Loan Servicing Agreement. The agreement is for an initial term of three years and will renew for additional one-year terms unless a party provides 120 days' notice of non-renewal or there is a termination for cause, provided that PCCU may not provide notice of non-renewal until 30 months following the signing date. On March 29, 2023, the Company and PCCU entered into the Commercial Alliance Agreement that sets forth the terms and conditions of the lending-related and account-related services governing the relationship between the Company and PCCU and supersedes the Loan Servicing Agreement, as well as the Amended and Restated Support Services Agreement and the Amended and Restated Account Servicing Agreement.

The Company's lending services program currently depends on PCCU as its largest funding source for new loans to CRBs. Under PCCU's loan policy for loans to CRBs, PCCU's board of directors has approved aggregate lending limits at the lessor of 131.25% times PCCU's net worth or 60% of total CRB deposits. Concentration limits for the deployment of loans are further categorized as (i) real estate secured, (ii) construction, (iii) unsecured and (iv) mixed collateral with each category limited to a percentage of PCCU's net worth. In addition, loans to any one borrower or group of associated borrowers are limited by applicable National Credit Union Association regulations to the greater of $100,000 or 15% of PCCU's net worth.

On September 28, 2022, the parties consummated the Business Combination, resulting in NLIT, consistent with the aforementioned parameters, purchasing all of the issued and outstanding membership interests of SHF in exchange for an aggregate of $185,000,000, consisting of (i) 11,386,139 shares of the Company's Class A common stock with an aggregate value equal to $115,000,000 and (ii) $70,000,000 in cash, $56,949,801 of which will be paid on a deferred basis.

Subsequent to the completion of the business combination, the status of PCCU has changed from Parent to majority shareholder of the Company pursuant to its ownership of 60.8% of the Company.

The Company generates both interest income and fee income through providing a variety of services to financial institutions desiring to service the cannabis industry including, among other things, Bank Secrecy Act and other regulatory compliance and reporting, onboarding, responding to account inquiries, responding to customer service inquiries relating to CRB depository accounts held at PCCU, and sourcing and managing loans. In addition to PCCU, the Company provides these similar services and outsourced support to other financial institutions providing banking to the cannabis industry. These services are provided to other financial institutions under the Safe Harbor Master Program Agreement.

Pursuant to the Unit Purchase Agreement, the Company entered into the Amended and Restated Support Services Agreement and the Amended and Restated Account Servicing Agreement under similar terms as the July 2021 agreements. In addition, in conjunction with the Unit Purchase Agreement, the Company and PCCU entered into a Loan Servicing Agreement. On March 29, 2023, the Company and PCCU entered into the Commercial Alliance Agreement that sets forth the terms and conditions of the lending-related and account-related services governing the relationship between the Company and PCCU and supersedes the Amended and Restated Support Services Agreement, the Amended and Restated Account Servicing Agreement, and the Loan Servicing Agreement.

The purpose of the $56,949,800 deferral is to provide the Company with additional cash to support its post-closing activities. Pursuant to the third amendment to the Unit Purchase Agreement, the deferred consideration was to paid in one payment of $21,949,801 on or before December 15, 2022, and the $35,000,000 balance in six equal installments of $6,416,667, payable beginning on the first business day following April 1, 2023, and on the first business day of each of the following five fiscal quarters, for a total of $38,500,002, including interest of $3,500,002. Furthermore, PCCU agreed to defer $3,143,388, representing certain excess cash of SHF, LLC due to the Seller under the definitive unit purchase agreement, and the reimbursement of certain reimbursable expenses under the definitive unit purchase agreement.

On October 26, 2022, the Company entered into a Forbearance Agreement (the "Forbearance Agreement") with PCCU and Luminous Capital USA Inc. ("Luminous"). As per the terms of the agreement, PCCU has agreed to defer all payments owed pursuant to the Purchase Agreement for a period of six (6) months from the date hereof while the Parties engage in good faith efforts to renegotiate the payment terms applicable to the Deferred Obligation (the "Forbearance Period").

On March 29, 2023, the Company and PCCU entered into a definitive transaction to settle and restructure the deferred obligations, including $56,949,800 into a five-year Senior Secured Promissory Note (the "Note") in the principal amount of $14,500,000 bearing interest at the rate of 4.25%; a Security Agreement pursuant to which the Company has granted, as collateral for the Note, a first priority security interest in substantially all of the assets of the Company; and a Securities Issuance Agreement, pursuant to which the Company has issued 11,200,000 shares of the Company's Class A Common Stock to PCCU

Purchase Agreement and Public Company Costs

The Business Combination detailed above was accounted for as a reverse recapitalization, with no goodwill or other intangible assets recorded, in accordance with GAAP. Under this method of accounting, NLIT was treated as the acquired company for financial reporting purposes. Accordingly, for accounting purposes, the Business Combination is treated as the equivalent of SHF issuing shares for the net assets of NLIT, accompanied by a recapitalization. The net assets of NLIT are recognized at fair value (which is expected to be consistent with carrying value), with no goodwill or other intangible assets recorded.

Other related events in connection with the Business Combination are summarized below:

- The 2,875,000 of Class B Common Stock converted at the closing to an equal number of shares of Class A Common stock.
- Upon closing of the Business Combination, 11,386,139 shares of Class A Common Stock were issued to PCCU as set forth in and pursuant to the terms of the Purchase Agreement.

  PCCU was due to receive a cash payment of $3.1 million at the consummation of the Business Combination, which represented the amount of SHF's cash on hand at July 31, 2021, less accrued but unpaid liabilities. In addition, pursuant to the terms of the purchase agreement, the Company is responsible for reimbursing the Seller for its transaction expenses.
- Approximately $56.9 million of the $70 million of cash proceeds due to PCCU was deferred and is due to the Seller. Approximately $21.9 million of the amount was due to PCCU beginning December 15, 2022. The residual $35 million is due in six quarterly installments of $6.4 million thereafter. Interest accrues at an effective annual rate of approximately 4.71%. A sum of 1,200,000 shares of Class A Common Stock were escrowed until the amount is paid in full.
- The Parent-Entity Net Investment appearing in the balance sheet of the Company amounting to $9,124,297 on the date of business combination was transferred to additional paid in capital.

- Immediately prior to the Closing, 20,450 shares of Series A Convertible Preferred were purchased by the PIPE Investors pursuant to the PIPE Securities Purchase Agreements for an aggregate value of $20,450,000. The shares of Series A Convertible Preferred were converted into 2,045,000 shares of Class A Common Stock at a purchase price of $10.00 per share of Class A Common Stock. Twenty (20) percent of the aggregate value was deposited into a third party escrow account for purposes of paying the PIPE Investors any required Registration Delay Payments. Upon the filing of the registration statement 10 calendar days subsequent to closing, 17.5% of the escrow amount was released with the remaining amount once all securities were included in an effective registration statement.
- For tax purposes, the transaction is treated as a taxable asset acquisition, resulting in an estimated tax basis Goodwill balance of $43,198,800, creating a deferred tax asset reported as Additional Paid-in Capital in the equity section of the balance sheet as of the date of the business combination. There is not any goodwill for book reporting purposes as no goodwill or other intangible assets are to be recorded in accordance with GAAP.
- Preferred Stock: The Company is authorized to issue 1,250,000 preferred shares with a par value of $0.0001 per share with such designation rights and preferences as may be determined from time to time by the Company's Board of Directors. As of September 30, 2023, there were 3,811 preferred shares issued or outstanding and 14,616 preferred shares issued or outstanding on December 31, 2022.
- Class A Common Stock: The Company is authorized to issue up to 130,000,000 shares of Class A Common Stock with a par value of $0.0001 per share. Holders of the Company's Class A Common Stock are entitled to one vote for each share. As of September 30, 2023, and December 31, 2022, there were 46,593,317 and 23,732,889 shares, respectively, of Class A Common Stock issued or outstanding. As of September 30, 2023, and December 31, 2022, 3,669,504 Class A Common Stock are held by the purchasers under forward purchase agreement dated June 16, 2022, by and among the Company and such purchasers.
- Parent-Entity Net Investment: Parent-Entity Net Investment balance in the consolidated balance sheets represents PCCU's historical net investment in the Carved-Out Operations. For purposes of these unaudited condensed consolidated financial statements, investing requirements have been summarized as "Parent-Entity Net Investment" and represent equity as no cash settlement with PCCU is required. No separate equity accounts are maintained for SHS, SHF or the Branches.

Key Metrics

In addition to the measures presented in our unaudited condensed consolidated financial statements, our management regularly monitors certain measures in the operation of our business. These key metrics are discussed below.

Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) and Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed EBITDA and Adjusted EBITDA, both of which are non-GAAP financial measures that we calculate as net income before taxes and depreciation and amortization expense in the case of EBITDA and further adjusted to exclude non-cash, unusual and/or infrequent costs in the case of Adjusted EBITDA. Below we have provided a reconciliation of net income (the most directly comparable GAAP financial measure) to EBITDA and from EBITDA to Adjusted EBITDA.

We present EBITDA and Adjusted EBITDA because these metrics are a key measure used by our management to evaluate our operating performance, generate future operating plans, and make strategic decisions regarding the allocation of investment capacity. Accordingly, we believe that EBITDA and Adjusted EBITDA provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management.

EBITDA and Adjusted EBITDA have limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are as follows:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and both EBITDA and Adjusted EBITDA do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs; and
- EBITDA and Adjusted EBITDA do not reflect tax payments that may represent a reduction in cash available to us.

Because of these limitations, you should consider EBITDA and Adjusted EBITDA alongside other financial performance measures, including net loss and our other GAAP results.

A reconciliation of net income to non-GAAP EBITDA and Adjusted EBITDA is as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2023	**2022**	**2023**	**2022**
Net (loss) income	$ (748,067)	$ 1,056,235	$ (19,766,081)	$ 1,894,179
Interest expense	356,840	36,002	1,544,779	36,002
Depreciation and amortization	288,871	1,625	1,086,535	3,576
Taxes	61,941	-	(1,199,483)	-
EBITDA	$ (40,415)	$ 1,093,862	$ (18,334,250)	$ 1,933,757
Other adjustments –				
Provision for credit (benefit) losses	(200,932)	88,345	377,614	383,910
Change in the fair value of warrants	860,735	(868,472)	417,798	(868,472)
Change in the fair value of forward purchase derivatives	-	601,691	-	601,691
Stock option conversion	422,294	-	2,951,336	-
Impairment of goodwill and finite-lived intangible assets	-	-	16,888,739	-
Loan origination fees and costs	11,431	102,364	12,178	102,364
Adjusted EBITDA	**$ 1,053,113**	**$ 1,017,790**	**$ 2,313,415**	**$ 2,153,250**

The change in our income on an EBITDA and Adjusted EBITDA basis for the three and nine months ended September 30, 2023, is due to increase in professional fees on account increase in compliances as well as increases in compensation, employee benefits, marketing, insurance, and additional items, as discussed under "*Discussion of our Results of Operations*" below. Other adjustments include estimated future credit losses not yet realized, including amounts indemnified to PCCU for loans funded by them. The Company had entered into a Loan Servicing Agreement with PCCU, pursuant to which the Company agreed to indemnify PCCU for claims associated with CRB activities including any loan default related losses for loans funded by PCCU; the Loan Servicing Agreement has since been superseded by the Commercial Alliance Agreement. Deferred loan origination fees and costs represent the change in net deferred loan origination fees and costs. When included with a new loan origination, we receive an upfront loan origination fee in conjunction with new loans funded by our financial institution partners and incur costs associated with originating a specific loan. For accounting purposes, the cash received for loan origination fees and costs is initially deferred and recognized as interest income utilizing the interest method.

Other Metrics

For our business operations, we monitor the following key metrics.

Total account balances, number of accounts and average account balances

Our lending capacity is dependent on the size of our managed deposit base and number of active accounts. In addition, fees are generated based on open accounts and account activity. We monitor account activity including deposits, withdrawals and ending account balance daily. Total account balances represent the balance of onboarded and monitored deposits on hand at financial institution clients at period end. Average account balance represents the total account balance divided by the number of accounts at the period end.

Account fees per average active accounts managed

Currently a significant amount of our fees is generated from account openings, active accounts and account activity. As a result, we monitor account openings and closings on a daily, weekly and monthly basis. We strive to meet the appropriate balance between depository balances and fees and therefore review account fees per average number of active accounts managed.

Nine months ended September 30		2023	2022	Change ($)	Change (%)
Average monthly ending deposit balance	(1)	$ 226,798,931	$ 148,191,118	78,607,813	53.04 %
Average monthly account fees	(2)	$ 717,945	$ 469,375	250,493	53.37 %
Average active accounts	(3)	1,010	616	386	62.66 %
Average account balance	(4)	$ 223,037	$ 240,440	(17,533)	(7.29)%
Average fees per account	(4)	$ 718	$ 762	(44)	(5.77)%
Three months ended September 30		**2023**	**2022**	**Change ($)**	**Change (%)**
Average monthly ending deposit balance	(1)	$ 216,852,258	$ 158,906,481	57,945,777	36.47 %
Average monthly account fees	(2)	$ 723,714	$ 470,981	252,733	53.66 %
Average active accounts	(3)	986	659	327	49.62 %
Average account balance	(4)	$ 219,931	$ 241,133	(21,202)	(8.79)%
Average fees per account	(4)	$ 734	$ 715	19	2.66 %

(1) Represents the average of monthly ending account balances

(2) Reported the average account activity fee revenue

(3) Represents the average of monthly ending active accounts

(4) Refer to the below section – *Discussion of Results of our Operations* for additional discussion of trends.

While the average number of accounts increased for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022, the average account size and account fees decreased as we experienced some churn of larger clients replaced by smaller business. We expect this trend to shift as we lead with our lending program typically requiring borrowers to place deposits with financial institutions with which we have relationships.

We are focused on enhancing and growing our lending platform. Incremental lending key metrics will be monitored as this portion of our business grows in volume. Metrics will include average loan balance, average life to repayment, average effective interest rate and loan status, amongst others.

Components of our Results of Operations

Revenue

The Company generates interest and fee income through providing a variety of services to PCCU and other financial institutions to facilitate its banking services to CRBs including, among other things, Bank Secrecy Act and other regulatory compliance and reporting, onboarding, responding to account inquiries, responding to customer service inquiries relating to CRB deposit accounts held at financial institution clients, and sourcing and originating loans. In addition, the Company provides these similar services and outsourced support to other financial institutions providing banking to the cannabis industry. These services are provided under the Safe Harbor Master Program Agreement.

Operating expenses

Operating expenses consist of compensation and benefits, professional services, rent expense, parent allocations, provisions for credit losses and other general and administrative expenses.

Compensation and benefits consist of employee wages and associated benefits while professional services consist of legal, general consulting and accounting fees.

The Company reports a provision for credit losses both as it relates to loans funded internally and those carried by PCCU or other financial institutions. The Company indemnifies PCCU for losses on loans to borrowers sourced by the Company and funded by PCCU. The Company anticipates comparable arrangements with other financial institutions that fund loans to borrowers sourced by the Company.

Other general and administrative expenses consist of various miscellaneous items including account hosting fees, insurance expense, advertising and marketing, travel meals and entertainment and other office and operating expense.

Discussion of our Results of Operations —2023 Compared to 2022 (Nine months ended September 30)

Revenue

Nine months ended September 30,	2023	2022	Change ($)	Change (%)
Deposit, activity, onboarding income	$ 7,036,444	$ 4,179,323	2,857,121	68.36 %
Safe Harbor Program income	48,140	125,767	(77,627)	(61.72)%
Investment income	4,023,940	935,993	3,087,947	329.91 %
Loan interest income	1,977,337	662,130	1,315,207	198.63 %
Total Revenue	$ 13,085,861	$ 5,903,213	7,182,648	121.67 %

Account fee income consists of deposit account fees, activity fees and onboarding income. Historically, the Company has charged fees based on cannabis related deposit account activity. During 2023, we reduced our fee percentage for cannabis specific accounts in order to ensure we were competitive with the market and for many accounts implemented a flat fee structure for certain CRB accounts based on historical and anticipated deposit levels. In addition, we receive a flat fee and lower rates for ancillary accounts, which are accounts provided to businesses servicing the cannabis industry in general but do not manufacture, possess, distribute or transport cannabis. The increase in deposit, activity and onboarding income was primarily attributable to the increase in the number of accounts related to the Abaca acquisition.

The Company provides similar account services and outsourced support to other financial institutions providing banking to the cannabis industry. These services are provided under the Safe Harbor Master Program Agreement. Revenue has decreased as we narrow the financial institutions and states we allow under this program and instead focus on servicing CRBs directly. The reduction in Safe Harbor Program income is a result of the reduction in the number of accounts.

We have a commercial alliance agreement with PCCU (related party) where our financial institution clients invest their customer deposits into short term US treasury instruments. The investment income in our income statement reflects our share of that investment income. Investment income earned on deposits with the Federal Reserve Bank increased as a result of recent interest rate increases and increases in the balances maintained by the customers.

We had a Loan Servicing Agreement with PCCU (related party) where our financial institution carries the loan balances on their financial statement; the Loan Servicing Agreement has since been superseded by the Commercial Alliance Agreement. The loan interest income reflects our share of loan interest on issued credit. Loan interest earned on the Company’s direct loans and the indemnified loans increased as the Company increases its focus on lending. For the nine months ended September 30, 2023, SHF serviced fifteen loans, as compared to seven loans in the nine months ended September 30, 2022.

Operating expenses

As discussed in the *business reorganization* section above, PCCU allocations were discontinued effective July 1, 2022, and SHF entered into both an account servicing agreement and support service agreement. There is no impact on revenue as a result of implementing these agreements.

Nine months ended September 30,	**2023**	**2022**	**Change ($)**	**Change (%)**
Compensation and employee benefits	$ 8,269,761	$ 2,383,117	$ 5,886,644	247.01 %
General and administrative expenses	4,874,255	856,205	4,018,050	469.29 %
Professional services	1,431,785	534,494	897,291	167.88 %
Impairment of goodwill	13,208,276	-	13,208,276	100.00 %
Impairment of finite lived intangible assets	3,680,463	-	3,680,463	100.00 %
Rent expense	246,694	82,087	164,607	200.53 %
Provision for credit losses	377,614	383,910	(6,296)	(1.64)%
Total operating expenses	$ 32,088,848	$ 4,239,813	$ 27,849,035	656.85 %

Compensation and employee benefits increased on account of stock-based compensation and also the increase in the head count in anticipation of growth.

General and administrative expenses increased across various categories including: i) approximately $746,080 in investment hosting fees as a result of the reorganization, ii) approximately $93,393 in increased marketing expense as we focus on growth, iii) approximately $1,082,959 in amortization and depreciation, and iv) approximately $533,630 in business insurance.

Professional services expense increased primarily due to the increase in the legal fees, audit fees, and consulting fees towards SEC filing and other ancillary reporting.

Impairment of goodwill and finite-lived intangible assets has increased on account of termination of the Master Services and Revenue Sharing Agreement with Central Bank under which the Company provided expertise and intellectual property to cannabis related businesses primarily located in Arkansas.

Provision for credit losses has increased due to increase in the loss rate and with increase in the absolute value of the loans.

Discussion of our Results of Operations —2023 Compared to 2022 (Three Months Ended September 30)

Revenue

Three Months Ended September 30,	**2023**	**2022**	**Change ($)**	**Change (%)**
Deposit, activity, onboarding income	$ 2,233,203	$ 1,369,559	863,644	63.06 %
Safe Harbor Program income	7,312	38,599	(31,287)	(81.06)%
Investment income	1,186,246	558,860	627,386	112.26 %
Loan interest income	906,213	412,296	493,917	119.80 %
Total Revenue	$ 4,332,974	$ 2,379,314	1,953,660	82.11 %

Account fee income consists of deposit account fees, activity fees and onboarding income. Historically, the Company has charged fees based on cannabis related deposit account activity. During 2023, we reduced our fee percentage for cannabis specific accounts in order to ensure we were competitive with the market and for many accounts implemented a flat fee structure for certain CRB accounts based on historical and anticipated deposit levels. In addition, we receive a flat fee and lower rates for ancillary accounts, which are accounts provided to businesses servicing the cannabis industry in general but do not manufacture, possess, distribute or transport cannabis. The increase in deposit, activity and onboarding income was primarily attributable to the increase in the number of accounts related to the Abaca acquisition.

The Company provides similar account services and outsourced support to other financial institutions providing banking to the cannabis industry. These services are provided under the Safe Harbor Master Program Agreement. Revenue has decreased as we narrow the financial institutions and states we allow under this program and instead focus on servicing CRBs directly. The reduction in Safe Harbor Program income is a result of the reduction in the number of accounts.

We have a commercial alliance agreement with PCCU (related party) where our financial institution clients invest their customer deposits into short term US treasury instruments. The investment income in our income statement reflects our share of that investment income. Investment income earned on deposits with the Federal Reserve Bank increased as a result of recent interest rate increases and increases in the balances maintained by the customers.

We had a Loan Servicing Agreement with PCCU (related party) where our financial institution carries the loan balances on their financial statement; the Loan Servicing Agreement has since been superseded by the Commercial Alliance Agreement. The loan interest income reflects our share of loan interest on issued credit. Loan interest earned on the Company's direct loans and the indemnified loans increased as the Company increases its focus on lending. For the nine months ended September 30, 2023, SHF serviced fifteen loans, as compared to ten loans in the nine months ended September 30, 2022.

Three months ended September 30,	2023	2022	Change ($)	Change (%)
Compensation and employee benefits	$ 2,069,910	$ 865,595	1,204,315	139.13 %
General and administrative expenses	1,482,792	373,695	1,109,097	296.79 %
Professional services	361,804	195,464	166,340	85.10 %
Rent expense	87,951	30,759	57,192	185.94 %
Provision (benefit) for credit losses	(200,932)	88,345	(289,277)	(327.44)%
Total operating expenses	$ 3,801,525	$ 1,553,858	2,247,667	144.65 %

Compensation and employee benefits increased on account of stock-based compensation and also the increase in the head count in anticipation of growth.

General and administrative expenses increased across various categories including: i) approximately $134,699 in investment hosting fees as a result of the reorganization, ii) approximately $92,123 in increased marketing expense as we focus on growth, iii) approximately $287,246 in amortization and depreciation, and iv) approximately $100,023 in business insurance.

Professional services expense increased primarily due to the increase in the legal fees, audit fees, and consulting fees towards SEC filing and other ancillary reporting's.

Provision for credit losses has decreased due to decrease in the loss rate and with increase in the absolute value of the loans.

Impairment of goodwill and finite lived intangible assets has increased on account of termination of the Master Services and Revenue Sharing Agreement with Central Bank under which the Company provided expertise and intellectual property to cannabis related businesses primarily located in Arkansas.

Financial Condition

Cash and cash equivalents

Cash and cash equivalents totaled $8,948,644 and $8,390,195 as of September 30, 2023, December 31, 2022, respectively.

Cash flows

For the nine months ended September 30, 2023, the Company's cash used in operations was $225,031 compared to cash provided by operations of $1,972,803, for the nine months ended September 30, 2022. This was mainly due to increase in the operating expenses and payments of the liabilities pertaining to the reverse acquisition along with an additional amount resulting from changes in working capital. See discussion under "*Discussion of our Results of Operations*" above for more information.

Contract assets and liabilities

Deferred revenue is primarily related to contract liabilities associated with the Company agreements. As of September 30, 2023, SHF reported a contract asset and liability of $2,115 and $63,402 and on December 31, 2022, SHF reported a contract asset and liability of $21,170 and $996, respectively.

Liquidity and going concern

As of September 30, 2023, the Company had $8,948,644 cash and net working capital deficit of $9,381,113, as compared to $8,390,195 in cash and net working capital deficit of $39,340,020 at December 31, 2022. Included in the working capital deficit at September 30, 2023 and December 31, 2022 are $12,011,163 and $11,622,831, respectively, which represent the equity consideration payable towards the Abaca acquisition. The Company has also incurred an operating loss of $19,002,987 for the nine-months period ended September 30, 2023.

Based upon these factors, management of the Company has determined that there is a risk of substantial doubt about the Company's ability to continue as a going concern for a period of at least twelve months from the date these unaudited condensed consolidated financial statements have been issued.

At December 31, 2022, a significant component of the working capital deficit was $25,973,017 representing the current portion of due to PCCU. As outlined above, the Company restructured the due to PCCU issuing equity and a long-term payable. As a result, this risk factor that the Company may not be able to continue as a going concern which existed at December 31, 2022 was alleviated. Despite the restructuring of the due to PCCU, at September 30, 2023, the working capital deficit substantially includes an equity commitment towards the Abaca acquisition, which is a non-cash liability amounting to $12,011,163. These factors, however, do not fully remove substantial doubt regarding the Company's ability to continue as a going concern. If the Company is not able to sustain its present level of operations, it may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, or suspend or curtail planned expansion programs. Any of these actions could materially harm the Company's business, results of operations and future prospects.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result should the Company not continue as a going concern as a result of this uncertainty.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Preparing unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, as well as disclosure of contingent assets and liabilities. An appreciation of our critical accounting policies is necessary to understand our financial results. In some cases, we could reasonably use different accounting policies and estimates, and changes in our estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates, and our financial condition or results of operations could be affected. We base our estimates on our experience and other assumptions that we believe are reasonable, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss further below.

Revenue recognition

SHF recognized revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"). The core principle of ASC 606 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which SHF expects to be entitled in exchange for those goods or services. ASC 606 defines a five-step process to achieve this core principle including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

Revenue is recorded at a point in time when the performance obligation is satisfied, and no contingencies exist. Revenue consists primarily of fees earned on deposit accounts held at PCCU but serviced by SHF such as bank account charges, onboarding income, account activity fee income and other miscellaneous fees.

In addition, SHF recognizes revenue from the Master Program Agreement. The Master Program Agreement is a non-exclusive and non-transferable right to implement and utilize the Safe Harbor Program. The Safe Harbor Program has two performance obligations; an implementation fee recognized when the contract is effective and a service fee recognized ratable over the contract term as the compliance program is executed.

Lastly, SHF also records revenue for interest on loans and investment income allocated by PCCU based on specific customer balances.

Amounts received in advance of the service being provided is recorded as a liability under deferred revenue on the consolidated balance sheets. Typical Safe Harbor Program contracts are three-year contracts with amounts due monthly, quarterly or annually based on contract terms.

Customers consist of financial institutions providing services to CRBs. Revenues are concentrated in the United States.

Indemnity liability

The indemnification component of the Loan Servicing Agreement is accounted for in accordance with ASC 460 Guarantees. In determining the applicability of ASC 460, we considered that the agreement outlines a broad indemnification of all claims related to the cannabis-related business. The most immediate and potentially significant of these are potential default-related credit losses. In the lending industry, it is inherently anticipated future credit losses will result from currently issued debt. SHF's indemnity obligation is subordinate to PCCU's and other financial institution clients' other means of collecting on the loans including foreclosure of the collateral, recourse against personal and/or corporate guarantors and other default remedies available in the loan agreements. Since borrowers are not party to the agreement between SHF and PCCU, any indemnity payments do not relieve borrowers of their obligation to PCCU nor would such payments preclude PCCU's right to future recoveries from the debtor. Therefore, as defined in ASC 460, the indemnification clause represents a general loss contingency in that it is an existing condition, situation or set of circumstances involving uncertainty as to possible loss to the Company that will ultimately be resolved when one or more future events occur or fail to occur. SHF's indemnity liability reflects SHF management's estimate of probable credit losses inherent under the agreement at the balance sheet date. Management uses a disciplined process and methodology to establish the liability, and the estimates are sensitive to risk ratings assigned to individual loans covered by the agreement as well as economic assumptions driving the estimation model. Individual loan risk ratings are evaluated quarterly by SHF management based on each situation.

In addition to default-related credit losses, SHF continuously monitors all other circumstances pursuant to the agreement and identifies events that may necessitate a loss contingency under the Loan Servicing Agreement; the Loan Servicing Agreement has since been superseded by the Commercial Alliance Agreement. A loss contingency is reported when it is both probable that a future event will confirm that a loss had been incurred on or before the related balance sheet date and the loss is reasonably estimable.

Stock-based compensation

The 2022 Plan ("Equity Incentive Plan") was approved by the Company's stockholders on June 28, 2022. The 2022 Plan permits the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonus awards, and performance compensation awards. The Company has not issued stock appreciation rights, restricted stock, stock bonus awards, or performance compensation awards in years 2023 and 2022. In conjunction with the 2022 Plan, as of September 30, 2023, the Company had granted stock options and restricted stock units which are described in more detail below:

Stock options

Stock options are awarded to encourage ownership of the Company's common stock by employees and to provide increased incentive for employees to render services and to exert maximum effort for the success of the Company. The Company's incentive stock options generally permit net-share settlement upon exercise. The option exercise price, vesting schedule and exercise period are determined for each grant by the administrator (committee appointed by board to administer the stock plans) of the applicable plan. The Company's stock options generally have a 10-year contractual term.

The Company measures all equity-based payment arrangements to employees and directors in accordance with ASC 718, Compensation–Stock Compensation. The Company's stock-based compensation cost is measured based on the fair value at the grant date of the stock-based award. It is recognized as expense on a straight-line basis over the requisite service period for the entire award. Forfeitures are recognized as they occur. The Company estimates the fair value of each stock-based award on its measurement date using either the current market price of the stock or Black-Scholes option valuation model, whichever is most appropriate. The Black-Scholes valuation model incorporates assumptions such as expected term of the instrument, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date, by reference to the underlying terms of the instrument, and the Company's experience with similar instruments. Changes in assumptions used to estimate fair value could result in materially different results.

The shares of the Company have been listed on the stock exchange for a limited period of the time and also the stock price has dropped significantly from the date of listing, based on which the Company has considered the expected volatility at 100% for the purpose of stock compensation. The risk-free interest rates are based on quoted U.S. Treasury rates for securities with maturities approximating the awards' expected lives. The expected term of the options granted is calculated based on the simplified method by taking average of contractual term and vesting period the awards. The expected dividend yield is zero as the Company has never paid dividends and does not currently anticipate paying any in the foreseeable future.

Restricted Stock Units / Restricted Stock Awards

Restricted Stock Units / Restricted Stock Awards are awarded to encourage ownership of the Company's common stock by employees and to provide increased incentive for employees to render services and to exert maximum effort for the success of the Company. The option exercise price, vesting schedule and exercise period are determined for each grant by the administrator (committee appointed by board to administer the stock plans) of the applicable plan.

The Company measures all equity-based payment arrangements to employees and directors in accordance with ASC 718, Compensation–Stock Compensation. The Company's stock-based compensation cost is measured based on the fair value at the grant date of the stock-based award. It is recognized as expense on a straight-line basis over the requisite service period for the entire award. Forfeitures are recognized as they occur. The Company estimates the fair value of each stock-based award on its measurement date using either the current market price of the stock or Black-Scholes option valuation model, whichever is most appropriate. The Black-Scholes valuation model incorporates assumptions such as expected term of the instrument, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date, by reference to the underlying terms of the instrument, and the Company's experience with similar instruments. Changes in assumptions used to estimate fair value could result in materially different results.

The shares of the Company were listed on the stock exchange for a limited period of the time and also the stock price has dropped significantly from the date of listing, based on which the Company has considered the expected volatility at 100% for the purpose of fair value calculation. The risk-free interest rates are based on quoted U.S. Treasury rates for securities with maturities approximating the awards' expected lives. The expected term of the options granted is calculated based on the simplified method by taking average of contractual term and vesting period the awards. The expected dividend yield is zero as the Company has never paid dividends and does not currently anticipate paying any in the foreseeable future.

Forward purchase agreement

On June 16, 2022, NLIT entered into a Forward Purchase Agreement with Midtown East Management NL, LLC ("Midtown East"). Subsequent to entering into the Forward Purchase Agreement, the Company, NLIT, and Midtown East entered into assignment and novation agreements with Verdun Investments LLC ("Verdun") and Vellar Opportunity Fund SPV LLC – Series 1 ("Vellar"), pursuant to which Midtown East assigned its obligations as to 1,666,666 shares of the shares of Class A Stock to be purchased under the Forward Purchase Agreement to each of Verdun and Vellar. As contemplated by the Forward Purchase Agreement:

- Prior to the business combination, Midtown East, Verdun and Vellar purchased approximately 3.8 million shares of NLIT Class A common stock directly from investors at market price in the public market. Midtown East and other counter parties waived their redemption rights with respect to the acquired shares;
- One business day following the Closing, NLIT paid approximately $39.3 million from the cash held in its trust account to Midtown East; Verdun and Vellar for the shares purchased and approximately $0.3 million in related expense amounts.
- At any time prior to the Maturity Date (defined as the earlier of i) the third anniversary of the Closing of the Business Combination, ii) the shares are delisted from The Nasdaq Stock Market or (iii) during any 30 consecutive Scheduled Trading Day-period following the closing of the Business Combination, the Volume Weighted Average share Price (VWAP) Price for 20 Scheduled Trading Days during such period shall be less than $3.00 per share), Midtown East, Verdun and Vellar may elect an optional early termination to sell some or all of the shares (the "Terminated Shares") of Class A Stock in the open market. If Midtown East, Verdun and Vellar sell any shares prior to the Maturity Date, the pro-rata portion of the Reset Price will be released from the escrow account and paid to SHF. Midtown East, Verdun and Vellar shall retain any proceeds in excess of the Reset Price that is paid to SHF.
- At the Maturity Date, Midtown East, Verdun and Vellar shall be entitled to (1) the product of the shares then held by them multiplied by the Forward Price, and (2) an amount, in cash or shares at the sole discretion of NLIT, equal to (a) in the case of cash, the product of(i)(x) 3.8 million shares less (y) the number of Terminated Shares and (ii) $2.00 (the "Maturity Cash Consideration") and (b) in the case of shares, (i) the Maturity Cash Consideration divided by (ii) the VWAP Price for the 30 Scheduled Trading Days prior to the Maturity Date.

- The trading value of the common stock combined with preferred shareholders electing to convert their preferred shares to common stock triggered a lower reset price embedded in the forward purchase agreement, or FPA. As of December 31, 2022, the Company had already called a special meeting to lower the make-whole price under the preferred share purchase agreement to $1.25/share. The Company, majority common shareholders and the preferred investors had entered into a voting agreement whereby the vote to approve the $1.25/share make-whole price was secured. Knowing the Company would ultimately be issuing shares to the preferred stockholders with a make whole issuance at $1.25/share compelled the company to recognize a reset price under the terms of the FPA of $1.25/share. These events significantly reduced the FPA receivable to approximately $4.6 million, from approximately $37.9 million reported at the end of the September 2022 quarter. The loss in value resulted not only in a compression of the balance sheet, but also $42.3 million charge to other expense on the statement of operations.

Allowance for Credit Losses (ACL)

In 2023, the Company adopted Accounting Standards Codification Topic 326 - Financial Instruments - Credit Losses (ASC Topic 326), which replaced the incurred loss methodology for estimated probable credit losses with an expected credit loss methodology that is referred to as the current expected credit loss ("CECL") methodology.

The ACL is a valuation account that is deducted from the amortized cost basis of financial assets carried at their amortized cost, including loans held for investment, to present the net amount that is expected to be collected throughout the life of the financial asset. The estimated ACL is recorded through a provision for credit losses charged against operations. Management periodically evaluates the adequacy of the ACL to maintain it at a level it believes to be reasonable. The Company uses the same methods used to determine the ACL to assess any reserves needed for off-balance sheet credit risks such as unfunded loan commitments including Indemnified loans to PCCU. These reserves for off-balance sheet credit risks are presented in the liabilities section in the consolidated balance sheets as an "Indemnity liability."

The ACL consists of two components: an asset-specific component for estimating credit losses for individual loans that do not share similar risk characteristics with other loans; and a pooled component for estimating credit losses for pools of loans that share similar risk characteristics. The ACL for the pooled component is derived from an estimate of expected credit losses primarily using an expected loss methodology that incorporates risk parameters such as probability of default ("PD") and loss given default ("LGD") which are derived from various vendor models and/or internally developed model estimation approaches for smaller homogenous loans.

PD is projected in these models or estimation approaches using economic scenarios, whose outcomes are weighted based on the Company's economic outlook and are developed to incorporate relevant information about past events, current conditions, and reasonable and supportable forecasts. The Company considers relevant current conditions and reasonable and supportable forecasts that relate to its lending practices and environment and the specific borrower and determines that the significant factor affecting the loan's performance is the fact that these borrowers are involved in the cannabis business. Despite being legal at the state level in certain jurisdictions, cannabis remains federally illegal in the United States as of the date of this memorandum. As cannabis related lending is a new practice in the United States, there is very little historical or industry data on which to base a loss forecast. Therefore, significant judgement is required in creating a reasonable loss estimate, using similar non-MRB loans as a baseline and adjusting for the inherent risks in the cannabis industry. While the Company considers other qualitative factors, including national macroeconomic conditions, in its overall risk analysis, it has determined that they are not significant inputs to the overall loss estimate calculations.

The ACL estimation process applies an economic forecast scenario, or a composite of scenarios based on management's judgment and expectations around the current and future macroeconomic outlook. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term of a loan excludes expected extensions, renewals, and modification under certain conditions.

Recoveries on loans represent collections received on amounts that were previously charged off against the ACL. Recoveries are credited to the ACL when received, to the extent of the amount previously charged off against the ACL on the related loan. Any amounts collected in excess of this limit are first recognized as interest income, then as a reduction of collection costs, and then as other income.

Impairment of Goodwill and Finite-lived intangible assets

Goodwill

The Company's goodwill was derived from the transaction discussed in note 4, where the purchase price exceeded the fair value of the net identifiable assets acquired. Goodwill is tested for impairment at least annually on November 15th unless any events or circumstances indicate it is more likely than not that the fair value of the goodwill is less than its carrying value.

On July 20, 2023, the Company agreed to terminate the Master Services and Revenue Sharing Agreement with Central Bank. Under the agreement, the Company provided expertise and intellectual property that allowed the Company and Central Bank to jointly serve the deposit banking needs of cannabis related businesses primarily located in Arkansas.

The agreement was originally executed by Rockview Digital Solutions, LLC, which was acquired by the Company in October 2022. The parties have agreed that termination will be effective as of October 1, 2023, allowing for an orderly transition that will have minimal impact on customer operations. The agreement, originally executed in 2018, was renewable on an annual basis and did not include any material early termination penalties.

The Company assessed several events and circumstances that could affect the significant inputs used to determine the fair value of the goodwill, including the significance of the amount of excess fair value over carrying value, consistency of operating margins and cash flows, budgeted-to-actual performance from prior year, overall change in economic climate, changes in the industry and competitive environment, and earnings quality and sustainability. The Company considered the decline in the operating margins and cash flow being goodwill impairment indicators and determined it appropriate to perform a quantitative assessment of the goodwill as of September 30, 2023.

The Company engaged a third-party valuation specialist to assist in the performance of the impairment analysis of the goodwill. For the interim quantitative goodwill impairment analysis performed as of September 30, 2023, the Company utilized an equally weighted combination of both an income and market approach to determine the fair value of the goodwill. The income approach utilizes a discounted cash flow method which is based on the present value of projected cash flows. The discounted cash flow models reflect company's assumptions regarding revenue growth rates, risk-adjusted discount rate, terminal period growth rate, economic and market trends and other expectations about the anticipated operating results of the goodwill. Under the market approach, the Company estimates the fair value based on market multiples of revenues derived from comparable publicly traded companies with operating characteristics similar to the Company. As a result of the interim goodwill impairment analysis, the goodwill was determined to have a carrying value that exceeded its fair value and therefore, a $13.21 million noncash goodwill impairment charge was recognized in the Company's unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2023.

Fair value determination of the goodwill requires considerable judgment and is sensitive to changes in underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of the quantitative goodwill impairment tests will prove to be an accurate prediction of future results. Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of the goodwill may include such items as: (i) an increase in the weighted-average cost of capital due to further increases in interest rates, (ii) timing and success of estimated future income, it is possible that an additional impairment charge may be recorded in the future, which could be material.

As of December 31, 2022, there were no negative indicators in the goodwill impairment that would impact the fair value of the goodwill.

The change in the carrying amount of goodwill from December 31, 2022, to September 30, 2023, is as follows:

December 31, 2022	$	19,266,276
Goodwill impairment		(13,208,276)
September 30, 2023	$	6,058,000

As of September 30, 2023, our accumulated goodwill impairment was $13,208,276.

Finite-lived intangible assets

The Company reviews its finite-lived intangible assets when there is a triggering event. The Company perform impairment test by comparing the fair value of finite lived intangible assets to the carrying value. In the event the carrying value exceeds the fair value of the assets, the assets are written down to their fair value.

As of September 30, 2023, on account of the triggering event discussed in the goodwill analysis above, the Company performed a quantitative assessment of finite-lived intangible assets comprise of market related intangible, customer relationships and developed technologies.

In order to evaluate the fair value of the finite-lived intangible assets, a royalty method was applied for market related intangibles, a discounted cash flow method applied for customer relationships and a cost to re-create method for developed technologies. As a result, the Company determined that the fair value of market related intangibles and developed technologies were less than the carrying value on the reporting date. The Company recognized an impairment charge of $0 and $3.68 million in the unaudited condensed consolidated statements of operations for the three and six months ended September 30, 2023. There was no impairment recognized for developed technologies as the fair value was in excess of the carrying value on the September 30, 2023, reporting date.

Following is the summary of the Company's finite-lived intangible assets as of September 30, 2023:

	Remaining Useful life in Years	December 31, 2022 (A)	Acquired in Acquisition (B)	Amortization (C)	Impairment (D)	September 30, 2023 (A+B-C-D)
Market related intangible assets	7.1 Years	2,066,918	$ -	$ 133,641	1,865,668	$ 67,609
Customer relationships	9.1 Years	1,974,795	-	101,612	1,814,795	58,388
Developed technology	6.1 Years	6,579,374	-	719,597	-	5,859,777
Total intangible assets		$ 10,621,087	**$ -**	$ 954,850	3,680,463	$ 5,985,774

Following is a summary of the Company's finite-lived intangible assets as of December 31, 2022:

	Remaining Useful life in Years	December 31, 2021 (A)	Acquired in Acquisition (B)	Amortization (C)	Impairment (D)	December 31, 2022 (A+B-C-D)
Market related intangible assets	8	-	$ 2,100,000	$ 33,082	-	$ 2,066,918
Customer relationships	10	-	2,000,000	25,205	-	1,974,795
Developed technology	7	-	6,700,000	120,626	-	6,579,374
Total intangible assets		**$ -**	$ 10,800,000	$ 178,913	**-**	$ 10,621,087

Emerging Growth Company Status

SHF is an emerging growth company ("EGC"), as defined in the JOBS Act. Under the JOBS Act, EGCs can delay adopting new or revised accounting standards issued until such time as those standards apply to private companies. In electing this relief, the JOBS Act does not preclude an EGC from adopting a new or revised accounting standard earlier than the time that such standard applies to private companies. SHF has elected to use this relief and will do so until the earlier of the date that it (a) is no longer an emerging growth company or (b) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result of the elected JOBS Act relief, these combined and unaudited condensed consolidated financial statements may not be comparable to companies that do not elect JOBS Act relief or choose to early adopt different accounting pronouncements than SHF.

Internal Control Over Financial Reporting

In connection with our management assessment of internal control over financial reporting as of and for the nine months ended September 30, 2023, the Company has identified three material weaknesses within our internal controls over financial reporting related to its Revenue Recognition, Complex Financial Instruments and Credit Losses. Refer to Item 9A of this document for additional details.

Related Party Relationships

Account Servicing Agreement

The Company had an Account Servicing Agreement with PCCU. SHF provides services as per the agreement to CRB accounts at PCCU. In addition to providing the services, SHF assumed the costs associated with the CRB accounts. These costs include employees to manage account onboarding, monitoring and compliance, rent and office expense, insurance and other operating expenses necessary to service these accounts. Under the agreement, PCCU agreed to pay SHF all revenue generated from CRB accounts. Amounts due to SHF were due monthly in arrears and upon receipt of invoice. This agreement was replaced and superseded in its entirety by Commercial Alliance Agreement entered on March 29, 2023, between PCCU and the Company.

Support Services Agreement

On July 1, 2021, SHF entered into a Support Services Agreement with PCCU. In connection with PCCU hosting the depository accounts and the related loans and providing certain infrastructure support, PCCU receives (and SHF pays) a monthly fee per depository account. In addition, 25% of any investment income associated with CRB deposits is paid to PCCU. This agreement was replaced and superseded in its entirety by Commercial Alliance Agreement entered on March 29, 2023, between PCCU and the Company.

Loan Servicing Agreement

Effective February 11, 2022, SHF entered into a Loan Servicing Agreement with PCCU. The agreement sets forth the application, underwriting and approval process for loans from PCCU to CRB customers and the loan servicing and monitoring responsibilities provided by both PCCU and SHF. PCCU receives a monthly servicing fee at the annual rate of 0.25% of the then-outstanding principal balance of each loan funded by PCCU. For the loans that are subject to this agreement, SHF originates the loans and performs all compliance analysis, credit analysis of the potential borrower, due diligence and underwriting and all administration, including hiring and incurring the costs of all related personnel or third-party vendors necessary to perform these services. Under the Loan Servicing Agreement, SHF has agreed to indemnify PCCU from all claims related to default-related credit losses as defined in the Loan Servicing Agreement. This agreement was replaced and superseded in its entirety by Commercial Alliance Agreement entered on March 29, 2023, between PCCU and the Company.

Commercial Alliance Agreement

On March 29, 2023, the Company and PCCU entered into the Commercial Alliance Agreement. This Agreement sets forth the terms and conditions of the lending and account-related services, governing the relationship between the Company and PCCU. The Commercial Alliance Agreement replaces and supersedes, in their entirety, the following agreements entered into between the aforementioned parties: the Amended and Restated Loan Servicing Agreement (the "Loan Servicing Agreement", dated September 21, 2022); the Second Amended and Restated Account Servicing Agreement ("the "Account Servicing Agreement," dated May 23, 2022, effective February 11, 2022) and the Second Amended and Restated Support Services Agreement (the "Support Agreement," dated May 23, 2022, effective February 11, 2022).

The Commercial Alliance Agreement sets forth the application, underwriting, loan approval, and foreclosure process for loans from PCCU to borrowers that are cannabis-related businesses and the loan servicing and monitoring responsibilities provided by the Company and PCCU. In particular, the Commercial Alliance Agreement provides for procedures to be followed upon the default of a loan to ensure that neither the Company nor PCCU will take title to or possession of any cannabis-related assets, including real property, that may be collateral for a loan funded by PCCU pursuant to the Commercial Alliance Agreement. Under the Commercial Alliance Agreement, PCCU receives a servicing fee at the annual rate of 0.25% of the then-outstanding principal balance of each loan funded by PCCU and serviced by the Company, and a servicing fee at the annual rate of 0.35% of the then outstanding principal balance of each loan presented by the Company and both funded and serviced by PCCU. In addition, the Company's is obligated by the Commercial Alliance Agreement to indemnify PCCU from certain default-related loan losses (as fully defined in the Commercial Alliance Agreement).

In addition, the Commercial Alliance Agreement provides for certain fees to be paid to the Company for certain identified account related services to include: all cannabis-related income, including all lending-related income (such as loan origination fees, interest income on CRB-related loans, participation fees and servicing fees), investment income, interest income, account activity fees, processing fees, flat fees, and other revenue generated from cannabis and multi-state hemp accounts that are hosted on PCCU's core system for a monthly fee equal to $30.96 per account in 2022, $25.32-$27.85 per account in 2023, and $26.08-$28.69 in 2024. In addition, as it pertains to CRB deposits held at PCCU, investment and interest income earned on these deposits (excluding interest income on loans funded by PCCU) will be shared 25% to PCCU and 75% to the Company. Finally, under the Commercial Alliance Agreement, PCCU will continue to allow its ratio of CRB-related deposits to total assets to equal at least 60% unless otherwise dictated by regulatory, regulator or policy requirements. The initial term of the Commercial Alliance Agreement is for a period of two years, with a one-year automatic renewal unless a party provides one hundred twenty days' written notice prior to the end of the term.

The below schedule demonstrates the ratio of CRB related loans funded by PCCU to the relative lending limits at September 30, 2023 and December 31, 2022.

	September 30, 2023	December 31, 2022
CRB related balance	$ 149,214,676	$ 161,138,975
Capacity at 60%	89,528,805	104,740,334
PCCU net worth	84,642,765	133,231,565
Capacity at 131.25%	111,093,629	174,866,429
Limiting capacity	89,528,805	174,866,429
PCCU loans funded	41,334,145	18,898,042
Amounts available under lines of credit	525,000	996,958
Incremental capacity	$ 47,669,660	$ 154,971,429

The revenue from operation on the statement of operations consists of the following agreement mentioned above for the three months ended September 30, 2023, and September 30, 2022:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Account servicing agreement	$ -	$ 2,340,716	$ 3,261,284	$ 5,777,446
Commercial alliance agreement	3,380,128	-	6,791,346	-
Total	$ 3,380,128	$ 2,340,716	$ 10,052,630	$ 5,777,446

The operating expense on the statement of operations consists of the following agreement mentioned above for the three months ended September 30, 2023, and September 30, 2022:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Support services agreement	$ -	$ 204,535	$ 378,730	$ 420,085
Loan servicing agreement	25,120	9,160	53,790	14,264
Commercial alliance agreement	328,668	-	770,928	-
Total	$ 353,788	$ 213,695	$ 1,203,448	$ 434,349

Item 3. Quantitative and Qualitative Disclosures About Market Risk

SHF Holdings, Inc. is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information otherwise required with respect to market risk.

Item 4. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2023 due to the material weaknesses described below. In light of these material weaknesses, we performed additional analysis as deemed necessary to ensure that our unaudited interim financial statements were prepared in accordance with U.S. generally accepted accounting principles. Accordingly, management believes that the financial statements included in this Quarterly Report on Form 10-Q present fairly in all material respects our financial position, results of operations and cash flows for the periods presented.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, due to the below-mentioned material weaknesses, the Company's disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act) were not effective as of September 30, 2023.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Prior to September 30, 2023, the Company has the following material weakness outstanding which we consider remediated as of and during the nine-month ended September 30, 2023:

Going Concern: As of September 30, 2022, the Company had failed to document an analysis to identify the substantial doubt about the ability to continue as a going concern; evaluate whether the substantial doubt was alleviated by management's plans; and disclose the going concern in the September 30, 2022 10-Q. To remediate this material weakness, the Company implemented a quarterly process with enhanced management review controls to perform and review a going concern analysis and the adequacy of disclosures within the consolidated financial statements, as applicable based on the results. The Company proceeded to collectively perform these tasks during the fourth quarter of 2022 and first quarter of 2023 by continuing to retain a CPA firm (onboarded during the latter part of the third quarter of 2022) to assist with the preparation of the analysis pursuant to the Company's ability to continue as a going concern and prepare applicable disclosures. The analysis and disclosures are then assessed by senior management of the Company performing review of the documentation and disclosures. As such, the Company has remediated this material weakness as of March 31, 2023.

Deferred Tax Asset: The Company failed to update the deferred tax calculation as of September 30, 2022 using actual amounts from the business combination due to ineffective management review controls over the income tax provision. To remediate this material weakness, the Company implemented a quarterly control to calculate and review the Deferred Tax Asset, evaluate the necessity for any valuation allowance, and reconcile it to the general ledger. The Company proceeded to collectively perform these tasks during the fourth quarter of 2022 and first quarter of 2023 by retaining a CPA firm in the United States to assist in the preparation of the tax provision and tax compliance work along with management's independent review of the quarterly income tax provision and valuation of the Deferred Tax Asset. The analysis and disclosures are then assessed by senior management of the Company performing a review of the documentation and disclosures. As such, the Company has remediated this material weakness as of June 30, 2023.

We consider the following material weaknesses to be outstanding as of September 30, 2023:

Revenue Recognition: During fiscal year 2022, the Company's revenue was primarily earned through certain related party contracts with PCCU that define contractually the revenue earned by the Company from PCCU for account servicing. The Company has identified a material weakness in our internal control over financial reporting related to the need to enhance the design and operating effectiveness of internal controls over the review of revenue recognition from allocations that occurs on a monthly basis between the Company and PCCU.

To remediate this material weakness, the Company has implemented a monthly process with enhanced management review controls to perform and review revenue recognition. The analysis and disclosures are assessed by senior management of the Company performing review of the documentation and disclosures.

Complex Financial Instruments: During fiscal year 2022 and the nine months ending September 30, 2023, the Company had a material weakness with regard to the ineffectiveness in management review controls of the accounting and valuation of complex financial instruments (warrants, forward purchase agreement, and stock-based compensation).

To remediate this material weakness, the Company has implemented a quarterly process with enhanced management review controls to perform and review complex financial instruments. The analysis and disclosures are assessed by senior management of the Company performing review of the documentation and disclosures.

Credit Losses: During the three months ending March 31, 2023, the Company identified a material weakness with regard to the initial implementation of CECL. This included initially not having supporting documentation of the model aligning to the calculations recorded, and incorrectly applying the modified retrospective adoption through the Condensed Unaudited Consolidated Statements of Operations only, as opposed to the Condensed Unaudited Consolidated Statements of Parent-Entity Net Investment and Stockholders' Equity on January 1, 2023.

To remediate this material weakness, the Company enhanced the allowance model documentation during the period from June 30, 2023, through September 30, 2023, and has implemented a quarterly process with enhanced management review controls to perform and review CECL. The analysis and disclosures are assessed by senior management of the Company performing review of the documentation and disclosures.

Changes in Internal Control over Financial Reporting

Other than as noted above in the September 30, 2023 material weaknesses, there was no change in our internal control over financial reporting that occurred during the nine month ended September 30, 2023 covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, with the exception of the following:

The Company's management has expended, and will continue to expend, a substantial amount of effort and resources for the remediation of the material weaknesses and improvement of our internal control over financial reporting. While we have processes to properly identify and evaluate the appropriate accounting technical pronouncements and other literature for all significant or unusual transactions, we have expanded and will continue to improve these processes to ensure that the nuances of such transactions are effectively evaluated in the context of the increasingly complex accounting standards.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes in the risk factors disclosed by us under Part I, Item 1A except the notice related to the Nasdaq Listing Qualifications Department, mentioned as follows:

On March 16, 2023, the Company received a letter from Nasdaq Stock Market LLC ("Nasdaq") that the Company did not maintain a minimum closing bid price of $1 per share for its common stock, as required by Nasdaq listing rule 5550(a)(2). The Company had 180 calendar days, or until September 12, 2023, to regain compliance.

On September 13, 2023, the Company received notice from the Nasdaq Listing Qualifications Department (the "Staff") of the Nasdaq advising that the Staff determined that the Company is eligible for an additional 180 calendar day period, or until March 11, 2024, to regain compliance with its minimum bid price requirement rule under Rule 5550(a)(2) (the "Minimum Bid Price Requirement") pursuant to the Nasdaq Listing Rule 5810(c)(3)(A).

The notification has no immediate effect on the listing of the Company's common stock, and its common stock will continue to trade on The Nasdaq Capital Market under the symbol "SHFS" at this time. The Company has a period of an additional 180 calendar days, or until March 11, 2024, to regain compliance with the Minimum Bid Price Requirement. If at any time before March 11, 2024, the bid price of the Company's common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days, the Staff will provide written confirmation that the Company has achieved compliance and the matter will be closed.

There can be no assurance that the Company will be able to regain compliance with the Minimum Bid Price Requirement or will otherwise be in compliance with other Nasdaq Listing Rules. However, the Company intends to actively monitor the closing bid price for its common stock and will consider available options to resolve the deficiency and regain compliance with the Minimum Bid Price Requirement, including initiating a reverse stock split. If the Company chooses to implement a reverse stock split, we must complete the reverse stock split no later than 10 business days prior to the expiration date of the additional compliance period on March 11, 2024 in order to timely regain compliance.

With respect to the Risk Factors contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2022, we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds.

(a) *Unregistered Sales of Equity Securities*

None, except as previously disclosed in the Company's Current Reports on Form 8-K.

(b) *Use of Proceeds from the Public Offering*

None.

(c) *Purchase of Equity Securities by the Issuer and Affiliated Purchasers*

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

No.	Description of Exhibit
2.1 †	Unit Purchase Agreement dated February 11, 2022 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 14, 2022).
2.2	First Amendment to Unit Purchase Agreement dated September 19, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 19, 2022).
2.3	Second Amendment to Unit Purchase Agreement dated September 22, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 23, 2022).
2.4	Third Amendment to Unit Purchase Agreement dated September 28, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 29, 2022).
2.5†	Agreement and Plan of Merger, dated October 31, 2022, by and among SHF Holdings, Inc., a Delaware corporation, Merger Sub I, a Delaware corporation, Merger Sub II, a Delaware limited liability corporation, Rockview Digital Solutions, Inc., a Delaware corporation, d/b/a Abaca and Dan Roda, solely in such individual's capacity as the representative of the Company Security Holders (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K, filed on October 31, 2022).
3.1	Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed on September 29, 2022).
3.2	Certificate of Designation (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K, filed on September 29, 2022).
10.1	Registration Rights Agreement dated September 28, 2022 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on October 4, 2022).
10.2 †	Lock-Up Agreement dated September 28, 2022 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, filed on October 4, 2022).
10.3	Non-Competition Agreement dated September 28, 2022 (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K, filed on October 4, 2022).
10.4	SHF Holdings, Inc. 2022 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K, filed on October 4, 2022).
10.5	Forbearance Agreement, dated as of October 27, 2022 by and between SHF Holdings, Inc., Partner Colorado Credit Union and Luminous Capital USA Inc. (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K, filed on November 1, 2022).
10.6	Executive Employment Agreement, dated August 16, 2023, by and between the Company and Tyler Beuerlein (See Exhibit 10.1 to Form 8-K filed 8-22-23)
31.1*	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

** Furnished.

† Certain of the exhibits and schedules to this exhibit have been omitted in accordance with Regulation S-K Item 601(a)(5). The Company agrees to furnish supplementally a copy of all omitted exhibits and schedules to the SEC upon its request.

SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Signature	Title	Date
/s/ Sundie Seefried		
	Name: Sundie Seefried	
	Title: Chief Executive Officer	November 14, 2023
Sundie Seefried		
/s/ James H. Dennedy	Chief Financial Officer	November 14, 2023
James H. Dennedy		

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sundie Seefried, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 March 31, 2024 of SHF Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principle; principles;

c) c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2023

By: May 13, 2024 */s/ Sundie Seefried*

Sundie Seefried
Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James H. Dennedy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 March 31, 2024 of SHF Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principle; principles;

c) c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2023

By: May 13, 2024 */s/ James H. Dennedy*

James H. Dennedy
Chief Financial Officer

(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SHF Holdings, Inc. (the "Company") on Form 10-Q for the quarterly annual period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the

“Report”), I, Sundie Seefried, Chief Executive Officer of the Company, SHF Holdings, Inc., certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report. Company.

Date: November 14, 2023 May 13, 2024

By: */s/ Sundie Seefried*

Sundie Seefried
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SHF Holdings, Inc. (the “Company”) on Form 10-Q for the quarterly period ended September 30, 2023, March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James H. Dennedy, Chief Financial Officer of the Company, SHF Holdings, Inc., certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report. Company.

Date: November 14, 2023

By: May 13, 2024 */s/ James H. Dennedy*

James H. Dennedy
Chief Financial Officer

(Principal Financial and Accounting Officer)

DISCLAIMER

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