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XS Financial Inc. Announces Proposed Private Placement

LOS ANGELES, CALIFORNIA – October 27, 2021 – XS Financial Inc. (CSE: XSF) (the “**Company**” or “**XSF**”) is pleased to announce that it proposes to complete a private placement (the “**Offering**”) of unsecured convertible notes (“**Notes**”) in the aggregate principal amount of up to US\$43.5 million, of which US\$33.5 million will be funded at closing and US\$10 million is available on a delayed draw on the same terms until June 30, 2022. The Company will also issue one share purchase warrant (a “**Warrant**”) for each US\$2.00 principal amount of Notes, with each Warrant entitling the holder to acquire one subordinate voting share of the Company (a “**Share**”) at an exercise price of CAD\$0.45 until the date which is three years from the closing date of the Offering.

The principal amount outstanding under the Notes may be converted by the holders at any time prior to the third business day prior to maturity into Shares at a conversion price equal to the lesser of: (i) CAD\$0.35 per Share; or (ii)(a) the last offering price per security (the “**Qualified Offering Price**”) in one or more prospectus offerings of Shares completed by the Company within 12 months of the closing of the Offering to raise aggregate gross proceeds of at least US\$5,000,000 (a “**Qualified Offering**”) if the date of conversion is prior to the commencement of marketing of such Qualified Offering; or (b) 125% of the Qualified Offering Price if the date of conversion is after the commencement of marketing of such Qualified Offering, all in accordance with the terms and conditions of the Notes.

The Notes shall mature two years following the closing date of the Offering, subject to a one year extension at the option of the Company upon providing at least 30 days’ prior notice (the “**Extension Notice**”) and issuing additional Notes to the holders on a *pro rata* basis in an aggregate principal amount equal to 1% of the aggregate principal amount of the Notes outstanding as of the date of the Extension Notice. Holders of Notes shall also have a pre-emptive right to participate in future offerings of Shares by the Company to maintain their *pro rata* interest in the Company, all in accordance with the terms and conditions of the Notes.

Interest on the Notes will accrue at the rate of (i) 9.50% per annum, of which 7.50% shall be payable in cash and the remaining 2.00% shall be payable in kind by the issuance of additional Notes (“**PIK Interest**”) and (ii) in the event of the Shares commence trading on a market tier of the Nasdaq Stock Market LLC (a “**NASDAQ Listing**”), 8.00% per annum, of which 6.00% shall be payable in cash and the remaining 2.00% shall be payable as PIK Interest. The notes are guaranteed by Xtraction Services Inc. and CA Licensed Lenders LLC, each a wholly owned direct or indirect subsidiary of the Company.

In the event of a change of control of the Company, XSF shall be required to redeem the Notes at a repurchase price equal to the greater of (i) 101% of the principal amount thereof, plus accrued and unpaid interest; and (ii) the product of (x) the number of Shares issuable upon conversion of the Notes to be redeemed and (y) the “**transaction price**” of such change of control, payable in the same form and amount as would be payable on the underlying Shares, all in accordance with the terms and conditions of the Notes.

In connection with the Offering, the Company will also enter into: (i) a Director Appointment Agreement, pursuant to which it shall agree to appoint a nominee (the “**Nominee**”) of a lead investor in the Offering to the board of directors of the Company, for as long as such investor beneficially owns at least 10% of

the all securities entitled to vote in the election of Company's directors (which Nominee shall have approval rights with respect to certain financing and lease transactions proposed to be entered into by the Company); (ii) a registration rights agreement pursuant to which the Company has agreed to, amongst other matters, file a shelf registration statement as soon as reasonably practicable following the Qualified Offering and take such other steps as necessary to register the resales of the Shares issuable upon conversion of the Notes and exercise of the Warrants, in the United States; and (iii) a voting trust agreement with the lead investor in the Offering and certain key shareholders of the Corporation pursuant to which, amongst other matters, such shareholders shall agree to vote their shares of the Corporation in favor of the Nominee.

The Offering and related matters remain subject to various closing conditions, including the finalization and execution of definitive documentation. The Offering is scheduled to close on or about October 28, 2021.

About XS Financial

XS Financial provides competitively priced, non-dilutive CAPEX financing solutions to companies operating in the U.S. state regulated and taxed cannabis industry. Founded in 2017, the Company specializes in providing financing for equipment and other qualified capital expenditures to growing cannabis companies, including cultivators, processors, manufacturers and testing laboratories. In addition, XSF has partnered with over 150 original equipment manufacturers (OEM) through its network of Preferred Vendor partnerships. This powerful dynamic provides an end-to-end solution for customers, resulting in recurring revenues, strong profit margins, and a proven business model for XSF stakeholders. The Company's subordinate voting shares are traded on the Canadian Securities Exchange under the symbol "XSF" and in the United States on the OTCQB under the symbol "XSHLF." For more information, visit: www.xsfinancial.com.

For more information, visit: www.xsfinancial.com or contact XS Financial at:

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Forward Looking Information

This press release contains "forward-looking information" and may also contain statements that may constitute "forward-looking statements", collectively "forward-looking information", within the meaning of applicable Canadian securities legislation. Such forward-looking information is not representative of historical facts or information or current condition, but instead represent the beliefs and expectations regarding future events about the business and the industry and markets in which XS Financial operates, as well as plans or objectives of management, many of which, by their nature, are inherently uncertain. Generally, such forward-looking information can be identified by the use of terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or may contain statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "will continue", "will occur" or "will be achieved". Forward-looking information contained herein may include but is not limited to, references to the completion of the Offering on the terms currently proposed or at all, any potential NASDAQ Listing or future Qualified Offering, any additional leasing opportunities and the ability to capitalize on such and the timing thereof. Factors that could cause actual results to differ materially from such forward-looking information

include, but are not limited to, general market conditions, availability of financing, regulatory approvals and the results of the Company's operations. Forward-looking information is not a guarantee of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Accordingly, readers should not place undue reliance on forward-looking information, which are qualified in their entirety by this cautionary statement. XS Financial Inc., does not undertake any obligation to release publicly any revisions for updating any voluntary forward-looking information, except as required by applicable securities law.

Neither the Canadian Securities Exchange nor its Regulation Services Provider accepts responsibility for the adequacy or accuracy of this release.