

**FORM 51-102F3
Material Change Report**

**MATERIAL CHANGE REPORT UNDER SECTION 7.1 OF
NATIONAL INSTRUMENT NO. 51-102**

Item 1. Reporting Issuer

XS Financial Inc. (the “Company”)
301 - 1665 Ellis Street
Kelowna, British Columbia
V1Y 2B3

Item 2. Date of Material Change

A material change took place effective October 29, 2021

Item 3. Press Release

On November 1, 2021, a news release in respect of the material change was disseminated by the Company.

Item 4. Summary of Material Change

The Company announced that it had completed its previously announced private placement of unsecured convertible notes in the aggregate principal amount of US\$43.5 million, of which US\$33.5 million was funded at closing and US\$10 million is available on a delayed draw on the same terms until June 30, 2022.

Item 5. Full Description of Material Change

The material change is described in the Company's press release attached hereto as Schedule "A", which press release is incorporated by reference herein.

Item 6. Reliance on subsection 7.1(2) of National Instrument 51-102

The report is not being filed on a confidential basis.

Item 7. Omitted Information

No information has been omitted.

Item 8. Executive Officer

David Kivitz

Item 9. Date of Report

DATED at Toronto, in the Province of Ontario, this 5th day of November, 2021.

SCHEDULE "A"



NOT FOR DISTRIBUTION TO U.S. NEWSWIRE SERVICES OR FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

XS FINANCIAL RAISES \$43.5 MILLION TO ADVANCE GROWING PIPELINE

LOS ANGELES, CALIFORNIA – November 1, 2021 – XS Financial Inc. (CSE: XSF) (the “**Company**” or “**XSF**”) is pleased to announce that it has completed its previously announced private placement (the “**Offering**”) of unsecured convertible notes (“**Notes**”) in the aggregate principal amount of 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 financing was led by a large institutional investor, with additional participation from an existing XSF Strategic Partner, urban-gro (NASDAQ: UGRO), Landrace Financial, Bengal Capital, and KEY Investment Partners.

XS Financials’ pipeline currently exceeds US\$100 million in CAPEX financing demand, and the Company has reviewed in excess of US\$300 million of transactions in 2021. The net proceeds from the Offering will primarily be used to finance capital-expenditure (CAPEX) and equipment purchases for existing customers and the strong demand from the growing pipeline of credit-worthy cannabis operators in the United States.

David Kivitz, CEO of XS Financial commented: “This financing is a transformative step for XS Financial. We are excited to have received this investment from a prominent institutional asset manager and numerous cannabis industry-focused investors, who we believe will add significant value to the Company. Additionally, we are thrilled to continue supporting our numerous multi-state (MSO) and single-state (SSO) customers as they expand while also executing on our growing pipeline of financing opportunities. With this completed US\$43.5 million financing and our recently announced US\$15 million line of credit, XS Financial is well-capitalized to expand our position as the industry-leading source for non-dilutive CAPEX and equipment funding for the rapidly growing U.S. cannabis market.”

Compass Point Research & Trading, LLC and Gramercy Capital Group, LLC (through INTE Securities LLC, member FINRA/SIPC) acted as financial advisors to XSF, and Dentons US LLP and Fogler Rubinoff LLP served as legal advisors to XSF. A.G.P./Alliance Global Partners acted as an advisor to urban-gro.

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.

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.

The Company also issued an aggregate of 16,750,000 share purchase warrants (“**Warrants**”), being one Warrant for each US\$2.00 principal amount of Notes. Each Warrant entitles the holder to acquire one subordinate voting share of the Company (a “**Share**”) at an exercise price of CAD\$0.45 until October 29, 2024.

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 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.

All securities issued and issuable pursuant to the Offering are subject to a statutory hold period expiring on March 1, 2022.

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 inquiries please contact:

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Chief Executive Officer

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Chief Operating Officer

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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 any potential NASDAQ Listing, 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.