

XS FINANCIAL'S SECOND QUARTER CONTINUES CONSISTENT GROWTH

Strong Second Quarter With a 195% YoY Increase in Revenue and Addition of 20 New Leases

LOS ANGELES, CA, August 25th, 2022 – XS Financial Inc. ("XS Financial", "XSF" or the "Company") (CSE: XSF) (OTCQB: XSHLF), a specialty finance company providing CAPEX and equipment financing solutions to cannabis companies in the United States, reported its financial results today for the second quarter ended June 30, 2022 ("Q2/22"). All amounts are expressed in U.S. dollars unless indicated otherwise.

Q2/22 Financial Highlights

- **195% YoY increase in revenue** to \$1.7 million in Q2/22 from \$0.6 million in Q2/21;
- **198% YoY increase in monthly recurring payments** to \$1.7 million in Q2/22 from \$0.6 million in Q2/21;
- **216% YoY increase in closed leases since inception** to \$67.3 million in Q2/22 from \$21.3 million in Q2/21;
- **176% YoY increase in gross lease receivables** to \$71.6 million in Q2/22 from \$25.9 million in Q2/21;
- **39% QoQ improvement of net distributable earnings** to (\$267k) in Q2/22 from (\$438k) the in Q1/22;
- **0% default rate** on portfolio; and
- **14 new lease schedules** with Ayr Wellness, Columbia Care, PharmaCann, Temescal Wellness, and others, resulting in closed lease transactions totaling \$19.2 million.

Post-Quarter-End Portfolio and Corporate Highlights as of August 15th, 2022:

	Q3/21	Q4/21	Q1/22	Q2/22	As of 8/15/2022
# of Customers	8	8	10	11	13
# of Active Leases	51	62	76	96	115
Closed Leases Since Inception	\$34.2 million	\$41.3 million	\$48.0 million	\$67.3 million	\$76.3 million
Average Lease Size by Customer	\$4.3 million	\$5.2 million	\$4.8 million	\$6.1 million	\$5.9 million
Monthly Recurring Payments	\$1.1 million	\$1.2 million	\$1.4 million	\$1.7 million	\$1.9 million
Gross Lease Receivables	\$38.5 million	\$43.6 million	\$48.1 million	\$71.6 million	\$79.7 million

- **Closed \$24 million bank credit facility** in August at prime + 1% APY to support growth and reduce cost of capital to the Company;
- **19 new lease schedules** with Ascend Wellness, Ayr Wellness, Columbia Care, Green Dragon, PharmaCann, and Skymint, resulting in lease originations of \$9.0 million; and
- **Appointment of Stephen Christoffersen** to Chief Financial Officer in August.

David Kivitz, CEO of XS Financial commented: "During the second quarter, we achieved significant operational milestones including record revenue, increased monthly recurring payments to over \$1.7 million, and accomplished record gross lease receivables. The closing of our \$24.0 million credit facility at Prime + 1% has transformed our financial foundation, which will drive financial results for our shareholders. Additionally, the onboarding of Stephen Christoffersen to Chief Financial Officer has bolstered our management team and positioned us well for our next phase of growth. We look forward to delivering positive results related to our key metrics and building our portfolio and pipeline with market-leading operators."

Summary Financial Results – Three Months Ended June 30, 2022

The following table sets forth selected financial information for the periods indicated that was derived from our audited financial statements.

	For the three months ended June 30	
	2022	2021
Revenue	\$1,657,771	\$561,579
Operating expenses	\$891,828	\$764,561
Operating income (loss)	765,942	(202,982)
Other expenses (income)	4,335,529	\$277,596
Net (loss) income	(\$3,569,586)	(\$480,578)
Income (loss) per share – basic	(\$0.03)	(\$0.00)
Weighted average shares outstanding – basic	103,885,041	103,500,701

Revenues for the quarter increased 195% to \$1,657,771 from \$561,579 for the same period the prior year. The increase of \$1,096,192 was attributable to revenue recognized from financing income associated with 58 new financing leases from Q2 2021 to Q2 2022.

Operating expenses for the quarter increased 16.6% to \$891,828 from \$764,561 for the same period the prior year. The increase was primarily the result of the increase in personnel costs due to an increase in operations, offset by a decrease in professional fees.

Other expenses for the quarter increased to \$4,335,529 from \$277,596 for the same period the prior year. The increase in other expense of \$4,057,933 was primarily attributable to an increase of \$1,385,000 to the change in fair value of liabilities, a \$990,604 increase in foreign currency translations losses related to the financing of convertible notes issued in Canada, \$936,488 increase in interest expense due to portfolio growth and \$753,048 in non-cash accretion expenses associated with new debt arrangements entered in 2021.

Net loss for the quarter was \$3,569,586 compared to a net loss of \$480,578 for the second quarter of 2021.

Earnings Per Share (“EPS”)

Comparative table illustrating changes EPS for the period ending June 30, 2021 (“Q2/21”), the period ending September 30, 2021 (“Q3/21”), the period ending December 31, 2021 (“Q4/21”), and the period ending March 31, 2022 (“Q1/22”), and Q1/22.

	<u>Q1/21</u>	<u>Q2/21</u>	<u>Q3/21</u>	<u>Q4/21</u>	<u>Q1/22</u>	<u>Q2/22</u>
Earnings (Loss) Per Share	\$(0.01)	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.02)	\$(0.03)

The Company realized a loss of \$3,569,586 for Q2/22 compared to a loss of \$480,578 for Q2/21.

Summary of Net Distributable Earnings – Second Quarter 2022 compared to First Quarter of 2022

	Q2 2022	Q1 2022
Operating Income	765,942	222,674
Add: Depreciation Expense	4,108	4,078
Add: Noncash Equity Compensation	47,085	464,838
Less: Interest Expense	(1,083,767)	(1,129,343)
Net Distributable Earnings	\$(266,632)	\$(437,754)
% Margin	-16.1%	-34.0%

Net Distributable Earnings

After adjusting for non-cash items, including unrealized loss in fair value change of investments, accretion expense, and change in fair value of derivative liabilities and stock-based compensation, the Company reported net distributable earnings of (\$266,632) in Q2 2022 compared to (\$437,754) in Q1 2022, a 39% improvement quarter over quarter.

XS Financials' complete annual financial statements and management's discussion and analysis for the first quarter ended June 30th, 2022, will be filed under the Company's profile on www.sedar.com, and will also be available on XS Financial's corporate website at www.xsfinancial.com.

About XS Financial

XS Financial provides the U.S. cannabis industry access to competitively priced, non-dilutive CAPEX financing solutions. Founded in 2017, the Company specializes in providing financing for equipment and other qualified capital expenditures to growing cannabis companies, including cultivators, processors, manufacturers and testing laboratories. In addition, XSF has partnered with over 200 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 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.

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Non-IFRS Financial Measures

This press release includes references to certain non-IFRS financial measures. These non-IFRS measures do not have any standardized meanings prescribed by International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and are therefore unlikely to be comparable to similar measures presented by other companies. Accordingly, they should not be considered in isolation, in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with IFRS.

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, any additional leasing opportunities and the ability to capitalize on such and the timing thereof. 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.