

XS FINANCIAL REPORTS SECOND QUARTER 2023 RESULTS

Company Generates Record Quarterly Revenue of \$3.0M, 80% YoY increase from Q2 2022

LOS ANGELES, CA, August 28th, 2023 – 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, reports its financial results today for the second quarter ended June 30th, 2023. All amounts are expressed in U.S. dollars unless indicated otherwise.

Q2/23 Financial Highlights:

- **80% YoY increase in Q2 revenue** to \$3.0 million in Q2/23 from \$1.7 million in Q2/22;
- **56% YoY increase in gross lease receivables** to \$111.5 million in Q2/23 from \$71.6 million in Q2/22;
- **83% YoY improvement in net distributable earnings** to \$(203k) in Q2/23 from \$(438k) in Q2/22;
- **21 new lease schedules** with Aeriz, Ascend Wellness, Ayr Wellness, Jushi, PharmaCann, and Temescal Wellness, resulting in closed lease transactions totaling approximately \$6.0 million.

Post-Quarter-End Portfolio and Corporate Highlights:

	Q3/22	Q4/22	Q1/23	Q2/23	As of 08/21/2023
# of Customers	14	15	16	16	16
# of Active Leases	139	174	189	209	223
Active Leases Since Inception	\$92.9 million	\$108.7 million	\$113.9 million	\$118.9 million	\$128.3 million
Average Lease Size by Customer	\$6.6 million	\$7.2 million	\$7.2 million	\$7.4 million	\$8.0 million
Monthly Recurring Payments	\$2.3 million	\$2.7 million	\$2.7 million	\$3.0 million	\$3.2 million
Gross Lease Receivables	\$99.1 million	\$112.2 million	\$111.7 million	\$111.5 million	\$117.0 million

David Kivitz, CEO of XS Financial commented: “During the second quarter, we generated record revenue and after quarter end, also generated record gross lease receivables. Looking ahead to 2H/2023, we are focused on expanding our customer base, increasing efficiencies in operations, optimizing our balance sheet, and expanding our relationships with our customers who have capex planned in attractive markets. Our customers and new prospects remain reliant on our leasing solutions, including our ability to fund at scale, which we expect will continue well beyond 2023.”

Summary Financial Results – Three Months Ending June 30th, 2023.

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	
	2023	2022
Financing income and operating lease revenue	\$2,990,414	\$1,657,771
Operating expenses	\$1,494,578	\$891,828
Other expenses (income)	\$3,173,081	\$4,335,529
Net (loss) income	\$(1,677,245)	\$(3,569,586)
Income (loss) per share – basic	\$(0.02)	\$(0.03)
Weighted average shares outstanding – basic	103,885,041	103,885,041

Revenues for the quarter increased 80% to \$2,990,414 from \$1,657,771 for the same period the prior year. The increase of \$1,332,643 was attributable to revenue recognized from financing income associated with 116 new financing leases.

Operating expenses for the quarter increased 68% to \$1,494,578 from \$891,828 for the same period the prior year. The increase was primarily the result of increases in personnel and contractor cost.

Other expenses for the quarter increased to \$3,173,081 from \$4,335,529 for the same period the prior year. The decrease in other expense of \$1,162,448 was primarily attributable to the decrease of approximately \$1,619,000 in non-cash losses related to the change in fair value of derivative liabilities and non-cash foreign currency translation losses that decreased approximately \$935,000 from 2022 to 2023. The above decreases are partially offset by increases of \$833,000 and \$593,000 in financing expenses and non-cash accretion expenses.

Net Loss for the quarter was \$1,677,245 compared to a net loss of \$3,569,586 for the second quarter of 2022.

Net Distributable Earnings

After adjusting for non-cash items, including unrealized loss in fair value change of investments, accretion expense, and stock-based compensation, including gain (loss) from lease terminations, the Company reported net distributable earnings of \$(203,403) in Q2 2023 compared to \$(1,173,302) in Q2 2022, a 83% improvement year over year.

Summary of Net Distributable Earnings – Second Quarter 2023 compared to Second Quarter 2022

	Q2 2023	Q2 2022
Operating Income	\$1,495,836	\$988,616
Add: Noncash Equity Compensation	\$208,880	\$47,085
Add: Depreciation Expense	\$4,520	\$4,107
Add: Gain on Lease Termination	\$3,709	\$0
Less: Interest Expense	\$1,916,348	\$2,213,110
Net Distributable Earnings	\$(203,403)	\$(1,173,302)

XS Financials' complete annual financial statements and management's discussion and analysis for the second quarter ended June 30th, 2023, 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/investors

Recent Developments

The Company previously announced on June 12, 2023 that it was amending its unsecured convertible notes ("Notes") in the aggregate principal amount of US\$43.5 million, which were originally issued on October 28, 2021 and October 10, 2022, to extend the maturity date of the Notes and provide for certain other amendments as described therein. These amendments to the Notes have since been voided and the Company remains in discussions with the holders of the Notes with regard to a proposed restructuring. The Company will provide further updates in due course.

About XS Financial

Founded in 2017, XS Financial specializes in providing CAPEX financing solutions to cannabis companies in the United States, including cultivators, processors, manufacturers, and testing laboratories. In addition, XSF has partnered with over 250 original equipment manufacturers (OEM) through its network of Preferred Vendor partnerships. This powerful dynamic provides an end-to-end solution for customers which results 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". 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.