

XS FINANCIAL REPORTS SECOND QUARTER 2020 FINANCIAL RESULTS

LOS ANGELES, CA, August 31, 2020 – XS Financial Inc., (“XS Financial”, “XSF” or the “Company”) (CSE: XSF) (OTCQB: XSHLF) a specialty finance company engaged in equipment leasing to owner operators of cannabis and hemp companies in the United States, announced today results for the quarter ending June 30, 2020 (“Q2/20”) and for the six-month period ending June 30, 2020 (“H1/20”). The Company’s unaudited interim condensed Financial Statements (“FS”) and Management Discussion & Analysis (“MDA”) are available under the Company’s profile on www.sedar.com, and on the corporate website at www.xsfinancial.com. All figures are expressed in United States dollars (\$) unless otherwise stated.

David Kivitz, Chief Executive Officer of XS commented, “We are very pleased with the progress we are making and continue to see improvements quarter over quarter. With the recent announcement outlining cost optimizations, which include management agreeing to a reduction in cash compensation, savings from a reduction of the interest rate on the term loan, the restructuring of certain staff and the closure of the Florida facility, the Company expects to realize annualized savings of over US\$500,000, or almost 50% of the prior operating budget. The Company believes that the streamlining of costs and the current portfolio of revenue-generating leases will improve bottom-line results within the third quarter of this year.

Q2/20 and H1/20 Highlights:

- **Revenues** of \$1,293,115 for Q2/20, compared to \$430,708 for the same period of the previous year (“Q2/19”), and revenue of \$1,593,160 for H1/20 compared to \$972,025 for the period ending June 30, 2019 (“H1/19”)
- **Gross Profit** of \$8 for Q2/20 compared to a gross loss of \$120,336 for Q2/19, and gross profit of \$77,771 for H1/20 compared to a gross loss of (\$213,086) for H1/19
- **Operating Expenses** of \$783,929 for Q2/20 compared to \$1,534,667 for Q2/19, and operating expenses of \$1,210,864 for H1/20 compared to 2,684,444 for H1/19
- **Net Cash Used in Operating Activities** of \$(370,241) for compared to \$(1,172,361) for Q2/19, and net cash used in operating activities of \$(370,241) for H1/20 compared to \$(1,172,361)
- **Net Loss** of \$899,688 compared to a loss of \$1,736,415 for Q2/19.
- **Adjusted Net Loss** of \$848,075 for Q2/20 compared to a loss of \$1,765,556 in Q2/19
- **Cash on hand at Q2/20** of \$2,297,505 (working capital of \$1,794,807).

i) *Adjusted Net Loss/ Adjusted Gross Profit are non-IFRS financial performance measures with no standard definition under IFRS. Adjusted Net Loss or Adjusted Gross Profit is calculated as Net Loss or Gross Profit per IFRS adjusted for the non-cash unrealized loss in the change in the fair value of investments, non-cash change in fair value of derivative liabilities, non-cash gains/losses on non-recurring equipment sales and non-cash accretion expense.*

Recent Corporate Highlights:

- **Two New Leasing Agreements with Carolina Botanical LLC (“CBD LLC”):** CBD LLC, an existing customer with two existing lease agreements, entered into two new short-term leases for \$66,000 with a 120-day term and \$50,000 with a 90-day term. The equipment was sourced through XSF’s Preferred Vendors and ranged from solvent recovery to remediation systems.
- **Name Change to XS Financial:** The new name better reflects the Company’s business model, and as a result the Company was also reclassified on the Canadian Securities Exchange, to “Diversified Industries,” a designation that includes businesses such as consumer products & services, real estate, communications & media and financial services, to name a few.
- **Third Drawdown with PharmaCann Inc. (“PharmaCann”):** PharmaCann was approved for an equipment lease of up to USD\$3.4 million for new equipment purchases to be deployed in tranches on a pro-rata basis and based on 48-month terms. The most recent drawdown brought the total drawn as of July 9, 2020, to approximately USD\$2.8 million for new equipment to expand their manufacturing capabilities in multiple markets, including Ohio, Illinois, Massachusetts,

Pennsylvania, and New York. Over 90 pieces of various equipment were sourced from 36 vendors who are part of the Company's Preferred Vendor Program.

- **Completion of California Lenders License ('CFL') Acquisition:** The Company successfully closed the acquisition of a CFL through the purchase of a local entity in California as previously announced (see press release dated January 27, 2020). The acquisition of the lender license allows XSF to significantly expand its lending and financing capabilities in California.
- **Addition of Two Seasoned Professionals to the Underwriting and Client Services Team:** Announced the addition of Jim Bates as Director of Risk and Kenneth Senter as Director of Client Services. Both have extensive experience and knowledge of the finance and leasing world with a combined tenure of over 60 years.
- **Streamlining of Costs to Ensure Profitability:** Provided a corporate update highlighting some recent cost optimizations which will serve to improve bottom-line performance and profitability. With the current portfolio of revenue-generating leases and the Company's ongoing access to capital through Archytas Ventures LLC ("**Archytas**") and KushCo Holdings Inc. ("**KushCo**") stock, XSF remains well capitalized to continue to grow its leasing portfolio.

Key Financial Results

Results of Operations

The Company has established key customer relationships, some of which became revenue-generating in 2019, with the remainder of its established customers generating revenue in 2020. Revenues of \$1,293,115 for Q2/20, increased by \$862,407 when compared to revenue of \$430,708 for Q2/19. The increase in revenue was attributable to the recognition of approximately \$1,150,000 of revenue associated with three new financing leases between two customers entered into in 2020. The above increase is partially offset by approximately a \$297,000 decrease in revenue recognized from equipment sales, royalty sales, and operating leases from 2019 to 2020.

For H1/20, revenues increased by \$621,135 to \$1,593,160 compared to revenue of \$972,025 for H1/19, which was attributable to the recognition of approximately \$1,307,000 of revenue associated with three new financing leases between two customers entered into in 2020. The above increase is partially offset by approximately a \$695,000 decrease in revenue recognized from equipment sales, royalty sales, and operating leases from 2019 to 2020.

Cost of sales for Q2/20 were \$1,293,107 compared with \$551,074 for Q2/19. The increase of \$742,033 in Q2/20 compared to Q2/19 was primarily attributable to approximately \$1,023,000 of equipment costs associated with financing leases entered into within the first six months of 2020, partially offset by decreases in (i) equipment purchases made in 2019 related to the direct sale of equipment to a customer, (ii) depreciation and amortization expense, and (iii) and compensation and related expenses for personnel providing services to customers.

Cost of sales for H1/20 increased by \$330,278 to \$1,515,389 compared with \$1,185,111 for H1/19, which was attributable to approximately \$1,150,000 of equipment costs associated with financing leases entered into in the first six months of 2020 partially offset by decreases as described above.

The Company realized a gross profit of \$8 for Q2/20, compared to a gross loss of \$120,306 for Q2/19, and adjusted gross profit (adjusted by removing the sale of legacy equipment) for Q2/20 of \$59,008. For H1/20 the Company realized a gross profit of \$77,771 compared to a loss of \$213,086 for H1/19 and adjusted gross profit of \$137,000 for H1/20. The Company anticipates further gross margin improvements due to the curtailment of excess equipment sales and new leasing activity.

Operating expenses of \$783,937 for Q2/20 decreased by \$630,364 when compared to operating expenses of \$1,414,301 for Q2/19, mainly due to a decrease in professional fees of approximately \$370,000 related to legal, audit, tax and internal accounting costs incurred in 2019, including costs associated with preparing

for the reverse acquisition, subsequent receipts debenture financing and the Company to be publicly traded. The Company also incurred approximately \$743,000 of non-cash professional fees related to the issuance of stock and warrants to advisors and brokers during the three months ended June 30, 2019. To a lesser degree, the decrease is attributable to a reduction in the use of third-party contractors and employees, and a reduction in the 2020 second quarter management fee charged from a related party for day-to-day executive management and support to the Company. The above decreases are partially offset by an increase of approximately \$281,000 in non-cash incentive compensation primarily related to the issuance of options in April 2020 that were fully vested and expensed upon issuance. Operating expenses for H1/20 of \$1,288,635 decreased from \$2,471,358 for H2/20 for the reasons as discussed above.

Net cash used in operating activities for the six months ending June 30, 2020 (“H1/20”) was \$370,242.

Cash Flow Per Share and Earnings Per Share (“EPS”)

Comparative table illustrating changes in CFPS and EPS for the period ending March 30, 2019 (“Q1/19”), Q2/19, the period ending September 30, 2019 (“Q3/19”), the period ending December 31, 2019 (“Q4/19”), the period ending March 30, 2020 (“Q1/20”), and Q2/20.

	<u>Q1/19</u>	<u>Q2/19</u>	<u>Q3/19</u>	<u>Q4/19</u>	<u>Q1/20</u>	<u>Q2/20</u>
Cash Flow Per Share	\$ (0.03)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Earnings Per Share	\$ (0.16)	\$ (0.05)	\$ (0.01)	\$ 0.04	\$ (0.05)	\$ (0.02)

The Company realized a loss of \$899,688 for Q2/20 (a loss of \$3,506,787 for H1/20) compared to a loss of \$1,736,415 for Q2/19 (loss of \$6,879,156 for H1/19). The Company anticipates further improvement in losses throughout 2020 due to the curtailment of excess equipment sales, significant cost reduction initiatives, the absence of costs related to the reverse acquisition and new leasing activity.

After adjusting for non-cash items including unrealized loss in fair value change of investments, change in fair value of derivative liabilities, non-cash gains/losses on non-recurring equipment sales and & accretion expense, the Company reported an adjusted net loss of \$848,075 compared to a loss of \$1,765,556 in Q2/19. The Company anticipates further improvements throughout 2020 due to new leasing activity, the curtailment of excess equipment sales, significant cost reduction initiatives, and the absence of one-time costs related to the reverse takeover transaction.

Liquidity and Capital Resources

The Company’s liquidity needs are primarily to finance growth initiatives, including equipment acquisition, leasing activities, debt services and for general corporate purposes.

At Q2/20, the Company had working capital of \$1,794,807 (compared to working capital of \$1,802,032 at Q2/19), including cash of \$2,297,505 (compared to \$2,487,293 at Q2/19). The decrease in working capital by \$(7,231) was primarily attributable to the deferred revenue for deposits received on financing leases and the funding of operations partially offset by shares received in KushCo recognized as an investment. The increase in accumulated deficit \$(3,506,787) was primarily attributable to the funding of operations and non-cash charges related to the unrealized loss on the fair value change of the KushCo investment, amortization of debt issuance costs and discounts and non-cash compensation.

Additional information and disclosure relating to the Company’s financial position for Q2/20, is available within the FS and MDA, both of which are available under the Company’s profile at www.sedar.com.

Outlook

XS Financial recently changed its name to better reflect the business model where the Company continues to assess numerous leasing opportunities and intends to pursue those that align with its growth objectives

in the United States. Target leasing opportunities will mainly consist of leases to businesses underpinned by recurring, predictable revenues, sound balance sheets and experienced management teams.

Current Pipeline:

- Currently have multiple signed term sheets and maintain a robust pipeline with approximately 25 leasing opportunities under review
- Increase in leasing demand from Original Equipment Manufacturers' (OEM) as customers are requesting financing options
- Increase in leasing opportunities to higher-quality, larger companies

The Company continues to offer its customers low-cost, capital-efficient non-dilutive financing and leasing solutions. XS Financial has become a recognized provider in the industry, as evidenced by an increase in the quality and number of leads available. The Company remains committed to establishing strong customer relationships with leading operators and OEMs, which will provide better returns for shareholders and stakeholders alike.

Business Model and Revenue Streams

XS Financial currently provides equipment leasing solutions and purchasing solutions for cannabis and hemp operators in the United States. The Company works directly with equipment vendors across the supply chain to offer a point of sale leasing solutions for end use customers.

Equipment Sales & Procurement: XS Financials' team is experienced in identifying and sourcing the right equipment to meet the distinctive needs of each customer. Through the Preferred Vendor Program, the Company has access to an expansive variety of equipment, enabling XS Financial to source the right equipment from the right vendor with attractive payment options.

Equipment Leasing Solutions: Equipment leasing solutions offer customers the ability to defer significant up-front capital across manageable monthly payments with flexible terms and affordable down payments. Term lengths generally range from 24-48 months and are considered on an individual basis.

Sale-Leaseback Solutions: The sale-leaseback offering allows customers the opportunity to leverage existing equipment to unlock working capital for general operating expenses, expansion equipment, and growth initiatives without any disruption to existing operations. The sale-leaseback allows XS Financial to diversify and scale its portfolio of customers while also allowing OEM partners to leverage their existing client base.

Customer Support: XS Financial provides a customer-focused experience and underwriting process. Whether it is working with our customers' finance team to identify the appropriate lease structure for state tax implications, to working with the procurement team to identify equipment from our Preferred Vendors, XS is focused on the customer first. The organization provides quality support and full transparency throughout the entire leasing process. With a multifaceted understanding of the industry, its suppliers, and the regulatory environment, XS can structure a custom lease solution tailored to specific needs.

About XS Financial

Founded in 2017, XSF specializes in providing equipment leasing solutions in the United States to owner/operators of cannabis and hemp companies, including cultivators, oil processors, manufacturers and testing laboratories. In addition, XSF provides a full range of consulting services including equipment selection and procurement, through its network of preferred vendor partnerships with original equipment manufacturers and equipment distributors. 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.

Visit www.xsfinancial.com for more information 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, realizing the benefits of cost optimization efforts within the third quarter of 2020, the anticipated inflow of leads from the California market and the ability to sign any new leases and the timing thereof.

Forward-looking information does not guarantee 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 does not undertake any obligation to release publicly any revisions for updating any voluntary forward-looking information, except as required by applicable securities law.

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