XTRACTION SERVICES HOLDINGS CORP.

CSE FORM 2A

LISTING STATEMENT

IN CONNECTION WITH THE REVERSE TAKEOVER OF CARACARA SILVER INC. BY XTRACTION SERVICES, INC.

DATED AS OF AUGUST 28, 2019

CAUTIONARY NOTE ON U.S. CANNABIS INVOLVEMENT

Xtraction Services, Inc. ("Xtraction") indirectly derives a significant portion of its revenues from the cannabis industry in certain states of the United States, including California, South Carolina and Kentucky, which industry is illegal under United States federal law. Xtraction may be considered to have ancillary involvement in the cannabis industry by virtue of entering into agreements with producers of cannabis and industrial hemp for the use of Xtraction's services in states where local state laws permit such activities. Currently, Xtraction is not directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the recreational cannabis marketplace in either Canada or the United States, nor is Xtraction directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the medical cannabis marketplace in Canada or the United States. See Section 4 – *Narrative Description of the Business* hereof.

The cultivation, sale and use of cannabis is illegal under federal law pursuant to the U.S. Controlled Substance Act of 1970 (the "CSA"). Under the CSA, the policies and regulations of the United States federal government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys, which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law. If the Department of Justice pursues prosecutions, then Xtraction could face: (i) the arrest of its employees, directors, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis; (ii) barring employees, directors, officers, managers and investors who are not U.S. citizens from entry into the United States for life; or (iii) suspension of its U.S. business.

Former U.S. Attorney General Jeff Sessions resigned on November 7, 2018 and was replaced by Matthew Whitaker as interim Attorney General. On February 14, 2019, William Barr was sworn in as Attorney General. It is unclear what position the new Attorney General will take on the enforcement of federal laws with regard to the U.S. cannabis industry. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions.

Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, Xtraction's business, results of operations, financial condition and prospects would be materially adversely affected.

Despite the current state of the federal law and the CSA, well over half of the states of the United States have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have legalized and regulated the sale and use of medical cannabis with strict limits on the levels of THC. However, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local government authorities will not limit the applicability of state laws within their respective jurisdictions.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the Canadian Securities Administrators published Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* ("Staff Notice 51-352") setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis- related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers, such as Xtraction, that provide ancillary services to third parties involved in the U.S. cannabis industry.

Since 2014, the United States Congress has passed appropriations bills which included provisions to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law (currently the "Leahy Amendment", but also referred to as the Rohrabacher-Farr Amendment). On December 22, 2018, Congress failed to pass the 2019 Fiscal Year Appropriations Bill, including the Leahy Amendment, causing a shutdown of the federal government. During a federal government shutdown, certain "nonessential" governmental programs are stalled; however, federal law enforcement and prosecution actions are exempted from furlough, thus Drug Enforcement Administration agents and federal prosecutors can operate without any restriction otherwise imposed by the spending bill regarding interference with the cannabis industry. Accordingly, during a shutdown, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis business that are otherwise compliant with state law.

On January 25, 2019, President Trump ended the government shutdown but announced that he may shutdown the government again on February 15, 2019 if, by that time, Congress has not agreed on the final 2019 Fiscal Year Appropriations Bill which includes sufficient funding for a border wall between the United States and Mexico. On February 15, 2019, President Trump avoided another government shutdown and signed the 2019 Fiscal Year Appropriations Bill which included the Leahy Amendment, extending its application until the end of the 2019 fiscal year on September 30, 2019. There can be no assurances that the Leahy Amendment will be included in future appropriations bills.

Despite the current state of the federal law and the U.S. Controlled Substances Act of 1970, the states of California, Nevada, Massachusetts, Maine, Michigan, Washington, Oregon, Colorado, Vermont and Alaska, and the District of Columbia, have legalized recreational adult use of cannabis. Massachusetts and Maine have not yet begun recreational cannabis commercial operations.

In addition, over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis, while other states have legalized and regulate the sale and use of medical cannabis with strict limits on the levels of THC.

Xtraction's objective is to capitalize on the opportunities presented as a result of the changing regulatory environment governing the cannabis industry in the United States and Canada.

Accordingly, there are a number of significant risks associated with the business of Xtraction. Unless and until the United States Congress amends the U.S. Controlled Substances Act of 1970 with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, and the business of Xtraction may be deemed to be producing, cultivating, extracting or dispensing cannabis in violation of federal law in the United States.

For these reasons, Xtraction's operations in the United States cannabis market may subject Xtraction to heightened scrutiny by regulators, stock exchanges, clearing agencies and other Canadian and United States authorities. There are a number of risks associated with the business of Xtraction. See Risk Factors. In accordance with Staff Notice 51-352, please see the table of concordance under Section 3 - General Development of the Business – Industry Background and Trends in this Listing Statement that is intended to assist readers in identifying those parts of this Listing Statement that address the disclosure expectations outlined in Staff Notice 51-352.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This Listing Statement includes "forward-looking information" and "forward-looking statements" within the meaning of Canadian securities laws and United States securities laws. All information, other than statements of historical facts, included in this Listing Statement that address activities, events or developments that the Resulting Issuer (as defined herein) expects or anticipates will or may occur in the future is forward-looking information. Forward-looking information is often identified by the words "may", "would", "could", "should", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" or similar expressions and includes, among others, information regarding: the completion of the Transaction (as defined herein), expectations for the effects of the Transaction, the potential benefits of the Transaction; statements relating to the business and future activities of, and developments related to, the Resulting Issuer after the date of this Listing Statement, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Resulting Issuer's business, operations and plans, including new revenue streams, the expansion into additional United States and international markets, any potential future legalization of adult-use and/or medical marijuana under U.S. federal law; expectations of market size and growth in the United States and the states in which the Resulting Issuer operates; expectations for other economic, business, regulatory and/or competitive factors related to the Resulting Issuer or the cannabis industry generally; and other events or conditions that may occur in the future.

Shareholders are cautioned that forward-looking information and statements are not based on historical facts but instead are based on reasonable assumptions and estimates of management of the Resulting Issuer at the time they were provided or made and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Resulting Issuer, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information and statements. Such factors include, among others, credit risks; risks relating to a concentration of leases and loans to small and mid-sized companies; risks relating to a concentration of leases and loans within a particular industry or region; risks relating to inadequate provision for credit losses; insufficient collateral securing a loan or lease; reliance on one key supplier; risks related to reliance on key officers and employees; customer concentration risk; risks relating to a change in extraction technologies; risks relating to voting control; financing risk; risks relating to U.S. regulatory landscape and enforcement related to cannabis, including political risks; risks relating to heightened scrutiny by regulatory authorities; public opinion and perception of the cannabis industry; limited operating history of Xtraction; competition risk; risk of litigation; risks related to proprietary intellectual property and potential infringement by third parties; risks relating to anti-money laundering laws and regulation; other governmental and environmental regulation; risks related to contracts with third party service providers; risks related to the enforceability of contracts; reliance on the expertise and judgment of senior management of the Resulting Issuer; risks related to co-investment with parties with different interests to the Resulting Issuer; risks related to proprietary intellectual property and potential infringement by third parties; risks relating to financing activities including leverage; risks relating to the management of growth; increased costs associated with the Resulting Issuer becoming a publicly traded company; increasing competition in the industry; risks relating to energy costs; reliance on key inputs, suppliers and skilled labour; ability and constraints on marketing products; fraudulent activity by employees, contractors and consultants; tax and insurance related risks; risks related to the economy generally; risk of litigation; conflicts of interest; risks relating to certain remedies being limited and the difficulty of enforcement of judgments and effect service outside of Canada; risks related to future acquisitions or dispositions; sales by existing shareholders; the limited market for securities of the Resulting Issuer; limited research and data relating to cannabis; as well as those risk factors discussed in Section 17 of this Listing Statement below. Although the Resulting Issuer has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such forward-looking information and statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such information and statements. Accordingly, readers should not place undue reliance on forward-looking information and statements. Forward-looking information and statements are provided and made as of the date of this Listing Statement and the Resulting Issuer does not undertake any obligation to revise or update any forward-looking information or statements other than as required by applicable law.

MARKET AND INDUSTRY DATA

This Listing Statement includes market and industry data that has been obtained from third party sources, including industry publications. Xtraction believes that the industry data is accurate and that its estimates and assumptions are reasonable, but there is no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there is no assurance as to the accuracy or completeness of included information. Although the data is believed to be reliable, Xtraction has not independently verified any of the data from third-party sources referred to in this Listing Statement or ascertained the underlying economic assumptions relied upon by such sources.

CURRENCY

In this Listing Statement, references to “$” or “dollars” are to the lawful currency of the United States, unless otherwise stated.

DATE OF INFORMATION

Except as otherwise indicated in this Listing Statement, all information disclosed in this Listing Statement is as of August 28, 2019, and the phrase “as of the date hereof” and equivalent phrases refer to such date.

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1. GLOSSARY OF TERMS

Unless otherwise indicated, the following terms used in this Listing Statement and the Schedules hereto shall have the meanings ascribed to them as set forth below:

"**Alcon**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Alcon Agreement**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Alternative Transaction Offer**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Ancillary Services**" has the meaning ascribed thereto under Section 4 of this Listing Statement.

"**Ansue**" has the meaning ascribed thereto under Section 2 of this Listing Statement.

"April 2019 Warrant" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Archytas**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Atlas**" has the meaning ascribed thereto under Section 15 of this Listing Statement.

"**Atlas Consulting Agreement**" has the meaning ascribed thereto under Section 15 of this Listing Statement.

"**Atlas Severance Payment**" has the meaning ascribed thereto under Section 15 of this Listing Statement.

"**AVG**" has the meaning ascribed thereto under Section 4 of this Listing Statement.

"**BCBCA**" means the *Business Corporations Act* (British Columbia), as amended.

"**Caracara**" means Caracara Silver Inc., a corporation organized under the laws of the Province of British Columbia.

"**Caracara Broker Unit**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Caracara Share**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Caracara Unit**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Caracara Warrant**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Carolina Botanical**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**CBD**" means cannabidiol.

"**CBP**" means United States Customs and Border Protection.

"**CBP Statement**" has the meaning ascribed thereto under Section 17 of this Listing Statement.

"**CDS**" has the meaning ascribed thereto under Section 17 of this Listing Statement.

"**Code**" means Section 422 of the United States Internal Revenue Code of 1986.

"**Cole Memorandum**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Committee**" has the meaning ascribed thereto under Section 9 of this Listing Statement.

"**Consolidation**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Continuing Resolution**" has the meaning ascribed thereto under Section 17 of this Listing Statement.

"**Conversion Event**" has the meaning ascribed thereto under Section 10 of this Listing Statement.

"**CPC**" has the meaning ascribed thereto under Section 2 of this Listing Statement.

"**CRM**" has the meaning ascribed thereto under Section 4 of this Listing Statement.

"**CSA**" means the United States *Controlled Substance Act* of 1970.

"**CSA**" means the Canadian Securities Administrators.

"**CSE**" means the Canadian Securities Exchange.

"**CSI**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**CSI Subsidiaries**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**DOJ**" means the United States Department of Justice.

"**Equipment Leasing**" has the meaning ascribed thereto under Section 4 of this Listing Statement.

"**Escrow Agreement**" has the meaning ascribed thereto under Section 11 of this Listing Statement.

"**Exchange**" has the meaning ascribed thereto under Section 2 of this Listing Statement.

"**Exchange Act**'' has the meaning ascribed thereto under Section 10 of this Listing Statement.

"**FinCEN Memorandum**" means the United States Department of the Treasury memorandum issued on February 14, 2014.

"**First Amendment**" has the meaning ascribed thereto under Section 15 of this Listing Statement.

"**Forfeiture Amount**" has the meaning ascribed thereto under Section 17 of this Listing Statement.

"**Forfeiture Matter**" has the meaning ascribed thereto under Section 17 of this Listing Statement.

"**FPI**" has the meaning ascribed thereto under Section 10 of this Listing Statement.

"**FPI Condition**" has the meaning ascribed thereto under Section 10 of this Listing Statement.

"**GLR**" has the meaning ascribed thereto under Section 13 of this Listing Statement.

"**Initial Khrysos Agreement**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Khrysos**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Kivitz Employment Agreement**" has the meaning ascribed thereto under Section 15 of this Listing Statement.

"**Leahy Amendment**" has the meaning ascribed thereto under Section 3 and Section 17 of this Listing Statement.

"**LOI**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**May Debenture**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**May Offering Maturity Date**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**May Unit**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**May Warrant**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"MBMI" has the meaning ascribed thereto under Section 13 of this Listing Statement.

"**MBMI Cease Trade Order**" has the meaning ascribed thereto under Section 13 of this Listing Statement.

"**Merger Agreement**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Named Executive Officer**" or "**NEO**" has the meaning ascribed thereto under Section 15 of this Listing Statement.

"**NI 52-110**" means National Instrument 52-110 *Audit Committees.*

"**NI 58-101**" means National Instrument 58-101 *Disclosure of Corporate Governance.*

"**NP 46-201**" means National Policy 46-201 *Escrow for Initial Public Offerings.*

"**Omnibus Incentive Plan**" has the meaning ascribed thereto under Section 9 of this Listing Statement.

"**Offer**" has the meaning ascribed thereto under Section 10 of this Listing Statement.

"**Peru Property**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Peru Royalty Interest**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**Prior LLC Agreement**" has the meaning ascribed thereto under Section 2 of this Listing Statement.

"**Puritix**" has the meaning ascribed thereto under Section 4 of this Listing Statement.

“**Qualifying Transaction**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Radbod Employment Agreement**” has the meaning ascribed thereto under Section 15 of this Listing Statement.

“**Resulting Issuer**” means Caracara after completion of the Transaction, to be named “Xtraction Services Holdings Corp.”

“**Resulting Issuer Board**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Resulting Issuer Common Shares**” has the meaning ascribed thereto under Section 10 of this Listing Statement.

“**Resulting Issuer Options**” has the meaning ascribed thereto under Section 9 of this Listing Statement.

“**Resulting Issuer Proportionate Voting Shares**” has the meaning ascribed thereto under Section 10 of this Listing Statement.

“**Resulting Issuer Shares**” has the meaning ascribed thereto under Section 10 of this Listing Statement.

“**Resulting Issuer Sub Receipt Warrant**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**SAE**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**SAR**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**SEC**” means the Securities Exchange Commission.

“**Sessions Memorandum**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**September Debenture**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**September Debenture Units**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**September Debenture Unit Warrant**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**September Offering Maturity Date**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Solex**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Staff Notice 51-352**” means Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* published on February 8, 2018.

“**Subscription Receipt**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Sub Receipt Broker Warrant**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Sub Receipt Debenture**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Subscription Receipt Financing**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Sub Receipt Unit**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Sub Receipt Warrant**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Termination Date**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Termination Fee**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“THC” means tetrahydrocannabinol.

“**TMX MOU**” has the meaning ascribed thereto under Section 17 of this Listing Statement.

“**Transaction**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Transaction Closing Date**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**USAM**” means the United States Attorney’s Manual.

“**USDA**” means the United States Department of Agriculture.

“**Xtraction**” means Xtraction Services, Inc., a corporation organized under the laws of the State of Delaware.

“**Xtraction May Advisory Warrant**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Xtraction Options**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Xtraction September Advisory Warrant**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Xtraction Shares**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**Xtraction Warrants**” has the meaning ascribed thereto under Section 3 of this Listing Statement.

“**$950K Loan**” has the meaning ascribed thereto under Section 17 of this Listing Statement.

“**1933 Act**” means the *United States Securities Act of 1933*.

“**2014 Cole Memo**” means the Department of Justice issued memorandum on February 14, 2014.

“**2018 Fiscal Year**” means the 2018 fiscal year on September 30, 2018.

"**2018 Service Provider Warrant**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

"**2019 Service Provider Warrant**" has the meaning ascribed thereto under Section 3 of this Listing Statement.

2. CORPORATE STRUCTURE

2.1 Corporate Name and Head and Registered Office

Caracara's head office is located at Simpson Tower, Suite 2702-401 Bay Street, Toronto, Ontario, M5H 2Y4 and its registered office is located at 490-580 Hornby Street, Vancouver, V6C 3B6.

Xtraction's head and registered office is located at 1880 Century Park East, Suite 250, Los Angeles, California, 90067.

The full corporate name of the Resulting Issuer on completion of the Transaction will be Xtraction Services Holdings Corp. The head office of the Resulting Issuer will be located at 1880 Century Park East, Suite 250, Los Angeles, California 90067 and the registered office will be located at Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2Z7.

2.2 Jurisdiction of Incorporation

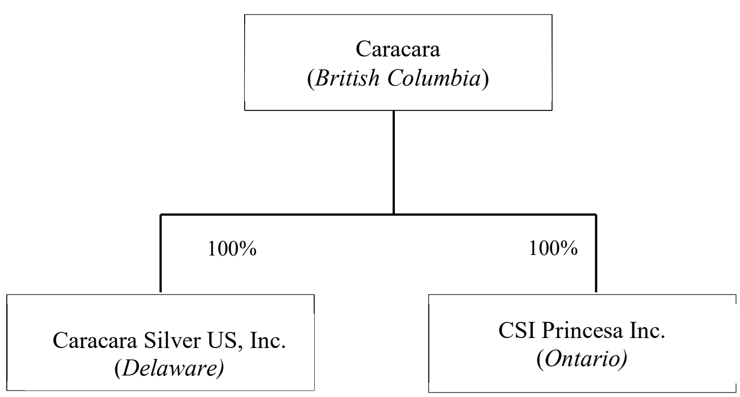
Caracara was originally incorporated on December 3, 2009 under the name Ansue Capital Corp. ("**Ansue**"), under the BCBCA as Capital Pool Company ("**CPC**") as defined under Policy 2.4 of the TSX Venture Exchange (the "**Exchange**"). On April 13, 2011, Ansue completed the Qualifying Transaction and changed its name to "Caracara Silver Inc." Caracara is a reporting issuer in the provinces of British Columbia and Alberta.

Xtraction was formed as a limited liability company under the laws of the State of Delaware on October 9, 2017 under the name "Xtraction Services, LLC" and was governed by a limited liability company agreement dated the same (the "**Prior LLC Agreement**").

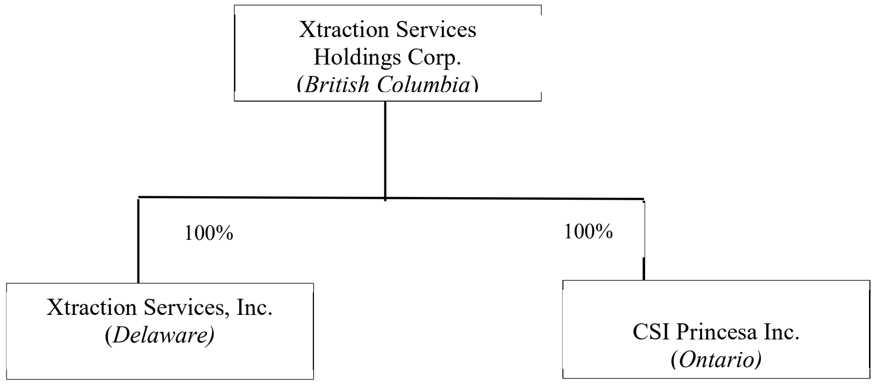
On July 19, 2018, Xtraction completed its conversion from a limited liability company to a C corporation under the laws of the State of Delaware and changed its name to "Xtraction Services, Inc.".

2.3 Inter-corporate Relationships

The following diagram represents the organizational chart of Caracara prior to the completion of the Transaction:



The following diagram represents the organizational chart of the Resulting Issuer immediately following the completion of the Transaction:



3. GENERAL DEVELOPMENT OF THE BUSINESS

3.1 General Development of the Business

Xtraction

Xtraction was formed as a limited liability company under the laws of the State of Delaware on October 9, 2017 under the name "Xtraction Services, LLC" and was governed by the Prior LLC Agreement. On July 19, 2018, Xtraction completed its conversion from a limited liability company to a C corporation under the laws of the State of Delaware and changed its name to "Xtraction Services, Inc."

Xtraction is not a reporting issuer in any of the provinces or territories of Canada, and none of its securities are registered under the securities legislation of any jurisdiction.

Xtraction Services is in the business of providing and leasing extraction, processing, distillation and related equipment used to extract and distill oil from Cannabis and hemp plants. Xtraction specializes in providing equipment leasing solutions in the United States to owner/operators of cannabis and hemp oil extraction facilities, as well as companies requiring product testing services and formulated product makers. Xtraction's equipment procurement solutions, including royalty and leasing programs, provide access to industry leading technology from a variety of best in class equipment manufacturer's, with little upfront cost to the acquiring customers. This powerful dynamic should provide large scale recurring revenues, maximizing returns for Xtraction's shareholders, and an end to end solution for companies in the industry.

Xtraction generates the vast majority of its equipment sales and leases through its employee sales force, who focus on equipment vendors and direct equipment users. Xtraction is currently working with cannabis and hemp processors to scale their operations and quickly provide access to large scale industrial equipment to benefit from the rapidly expanding concentrates market. Xtraction's management team has a successful track record of creating shareholder value in scaling high growth businesses, providing leasing and financing solutions, and driving operational best practices.

Transaction

On August 13, 2018, Caracara and Xtraction entered into a letter of intent (the "**LOI**"), as amended on September 18, 2018, October 29, 2018, November 29, 2018, January 15, 2019 and March 5, 2019 pursuant to which Caracara, through a wholly-owned subsidiary to be incorporated under the laws of the State of

Delaware at a later date, agreed to acquire all of the issued and outstanding class A and class B common stock (collectively, the "**Xtraction Shares**"), stock options (the "**Xtraction Options**") and warrants (the "**Xtraction Warrants**") of Xtraction (the "**Transaction**").

Pursuant to the LOI, the holders of the issued and outstanding Xtraction Shares would receive for each Xtraction Share such number of common shares of Caracara (each a "**Caracara Share**") determined in accordance to the terms of the LOI.

On March 22, 2019, Caracara and Xtraction entered into a definitive agreement (the "**Merger Agreement**") pursuant to which the parties agreed to the terms and conditions in respect of the Transaction. The Merger Agreement provides for various representations and warranties of Caracara, on behalf of itself and the Caracara Subsidiaries, and Xtraction, to the other party with respect to themselves and their respective businesses. These representations and warranties relate to, among other things: organization and corporate capacity, subsidiaries, capitalization, convertible securities, dissolution, approvals and consents, authorizations and binding effect, litigation, judgements, financial statements, compliance (including stock exchange and securities laws compliance) and absence of changes.

The completion of the Transaction is subject to certain conditions precedent that must be satisfied prior to the closing date of the Transaction ("**Transaction Closing Date**"), subject to waiver by either party for whose benefit the conditions precedent are inserted.

Conditions Precedent

Prior to the Transaction Closing Date, certain conditions precedent for the benefit of Caracara must have been fulfilled, performed or otherwise waived, in whole or in part, by Caracara in its sole discretion including the following conditions:

(i) receipt of all required approvals and consents for the Transaction and all related matters and for the definitive agreements for the Transaction, including without limitation:

(a) the receipt of all requisite approvals of the holders of Xtraction Shares and holders of Caracara Shares as required by the Canadian Securities Exchange ("**CSE**") or applicable corporate or securities laws to implement the Transaction;

(b) the approval of any third parties from whom Xtraction must obtain consent including, without limitation, all regulatory approvals;

(ii) no material adverse change shall have occurred in the business, results of operations, assets, liabilities, financial condition or affairs of Xtraction since December 31, 2018;

(iii) the representations and warranties of Xtraction contained in the Merger Agreement shall be true and correct in all material respects as of the Transaction Closing Date, except as affected by transactions contemplated or permitted by the Merger Agreement;

(iv) there being no prohibition under applicable laws against consummation of the Transaction;

(v) no action or proceeding pending or threatened by any person in any jurisdiction, or any applicable laws proposed, enacted, promulgated or applied, to enjoin, restrict or prohibit the

Transaction or which could reasonably be expected to result in a material adverse effect on Xtraction; and

(vi) Xtraction shall be in compliance in all material respects with the terms of the definitive agreements for the Transaction.

Prior to the Transaction Closing Date, certain conditions precedent for the benefit of Xtraction must have been fulfilled, performed or otherwise waived, in whole or in part, by Xtraction in its sole discretion including the following conditions:

(i) receipt of all required approvals and consents for the Transaction and all related matters and for the definitive agreements for the Transaction, including without limitation:

(a) the receipt of all requisite approvals of the holders of Xtraction Shares and Caracara Shares as required by the CSE or applicable corporate or securities laws to implement the Transaction;

(b) the approval of the CSE for the listing of the Resulting Issuer Shares (as defined herein);

(c) the approval of any third parties from whom Xtraction must obtain consent including, without limitation, all regulatory approvals; and

(d) the approval of the board of directors of Caracara of the changing of the name of Caracara to Xtraction Services Corp.;

(ii) each Resulting Issuer Share issuable pursuant to the Transaction shall be issued as fully paid and non-assessable shares in the capital of Caracara, free and clear of any and all encumbrances, liens, charges, demands of whatsoever nature, except those imposed pursuant to the escrow restrictions of the CSE, and shall be exempt from the prospectus requirements of applicable Canadian securities laws in each of the provinces and territories of Canada and such securities shall not be subject to resale restrictions under applicable Canadian securities laws (other than as applicable to control persons);

(iii) the Resulting Issuer Board (as defined herein) shall have been elected to the board of directors of Caracara, conditional upon the completion of the Transaction, and the management nominees of Xtraction shall have been duly appointed as the management of Caracara as of the time of closing of the Transaction;

(iv) no material adverse change shall have occurred in the business, results of operations, assets, liabilities, financial condition or affairs of Caracara since December 31, 2018, other than a reduction of its cash position in order to pay ongoing operating expenses and professional fees or other expenses in connection with the Transaction;

(v) the representations and warranties of Caracara contained in the Merger Agreement shall be true and correct in all material respects as of the Transaction Closing Date, other than as a result of any change in the issued and outstanding securities of Caracara as a result of the Transaction;

(vi) there being no prohibition under applicable laws against consummation of the Transaction;

(vii) no action or proceeding pending or threatened by any person in any jurisdiction, or any applicable laws proposed, enacted, promulgated or applied, to enjoin, restrict or prohibit the Transaction or which could reasonably be expected to result in a material adverse effect on Caracara;

(viii) evidence that Caracara's net cash balance is no less than US$925,000, prior to giving effect to any reasonable expenses of Caracara related to the Transaction; and

(iv) Caracara shall be in compliance in all material respects with the terms of the definitive agreements for the Transaction.

Alternative Transaction

The Definitive Agreement provides that should Xtraction or Caracara receive a bona fide offer, whether written or oral (an "**Alternative Transaction Offer**") from a third party to acquire all or substantially all of the assets or shares of Xtraction or Caracara, as applicable, or to enter into an arrangement or agreement which would materially interfere with the Transaction, then Xtraction or Caracara, as applicable, may:

(i) furnish information with respect to Xtraction or Caracara, as applicable, to the person making such Alternative Transaction Offer, allow such person access to Xtraction's or Caracara's, as applicable, facilities and properties and engage in discussions and negotiations; and

(ii) enter into an agreement with respect to an Alternative Transaction Offer.

However, Xtraction or Caracara, as applicable, must have delivered written notice to Xtraction or Caracara, as applicable, of its intention to enter into an agreement with respect to such Alternative Transaction Offer and to terminate the Merger Agreement. In addition, the party terminating the Definitive Agreement will also need to make a cash payment in amount equal to the lesser of the reasonable expenses incurred by the other party in connection with the Transaction and C$250,000 (the "**Termination Fee**").

Termination

The Merger Agreement shall terminate on the day (the "**Termination Date**") on which the earliest of the following events occurs:

(i) written agreement of Caracara and Xtraction to terminate the Merger Agreement;

(ii) upon provision of a notice of an Alternative Transaction Offer and payment of the Termination Fee by Caracara or Xtraction, as applicable, to the other party;

(iii) any applicable regulatory or government agency having notified in writing to either Caracara or Xtraction of its determination to not permit the Transaction to proceed, in whole or in part, provided the parties used commercially reasonable efforts to appeal or reverse such determination, or modify the terms of the Transaction on a basis that is not prejudicial to either party hereto in order to address such determination;

(iv) by either party if any of the conditions precedent for the benefit of such party is not satisfied and such condition is incapable of being satisfied by September 30, 2019, except that this right to terminate shall not be available to either party whose failure to fulfill any of its obligations or beach of any of its representations and warranties under the Merger Agreement was the principal cause of, or resulted in, such conditions precedent being incapable of being satisfied by such date; and

(v) if the Transaction is not completed on or prior to September 30, 2019.

Upon termination of the Merger Agreement, Caracara and Xtraction shall have no obligations to one another, other than among other things maintaining confidentiality and in respect of any liability of a party due to a breach of any terms or conditions set forth in the Merger Agreement prior to termination including payment by the terminating party of the Termination Fee in the event the Merger Agreement is terminated in connection with an Alternative Transaction Offer.

Upon completion of the Transaction, Xtraction's current (i) President and Chief Executive Officer, David Kivitz, (ii) Chief Financial Officer and Corporate Secretary, Joseph Fazzini and (iv) Chief Marketing Officer, Antony Radbod, will each be appointed to hold the same position of the Resulting Issuer. The proposed board of directors of the Resulting Issuer (the "**Resulting Issuer Board**") will consist of David Kivitz, Gary Herman, Antony Radbod, and Stephen Christoffersen.

Following completion of the Transaction, it is expected that holders of Xtraction Shares and Caracara Shares will hold approximately 92% and 8% of the issued and outstanding Resulting Issuer Shares, respectively.

Caracara

Caracara was incorporated pursuant to the provisions of the BCBCA on December 3, 2009 under the name "Ansue Capital Corp." Upon incorporation, Ansue was structured as a CPC.

On August 19, 2011, Ansue acquired all of the issued and outstanding shares of Caracara Silver Inc. ("**CSI**") and its wholly-owned subsidiaries, Alpaca Exploraciones S.A.C. and Solex del Peru S.A.C. (collectively, the "**CSI Subsidiaries**"), from Southern Andes Energy Inc. ("**SAE**") in exchange for 100,000,000 pre-consolidation shares of Ansue and the assumption by Ansue of intercorporate debt in the amount of approximately C$250,000 owing to SAE by CSI and the CSI Subsidiaries (the "**Qualifying Transaction**"). Concurrent with the closing of the Qualifying Transaction, CSI changed its name to "CSI Princesa Inc." and Ansue changed its name to "Caracara Silver Inc." and completed a consolidation of its issued and outstanding shares on the basis of ten (10) pre-consolidation shares for one (1) post-consolidation share (the "**Consolidation**"). The CSI Subsidiaries were merged on January 1, 2012 to continue as Solex del Peru S.A.C. ("**Solex**"). Caracara is a reporting issuer in the provinces of British Columbia and Alberta.

Following the completion of the Qualifying Transaction, Caracara was principally in the business of acquiring, exploring and developing mineral properties in Peru and, through Solex, controlled the Princesa silver concessions (the "**Peru Property**") comprising more than 24,000 hectares of land along the Princesa-Pilunani mineralized trend located 210 kilometres north of Juliaca in Southern Peru.

On August 31, 2016, Caracara executed an option agreement (the "**Alcon Agreement**") with Alcon Exploration Corp. ("**Alcon**"), whereby Alcon was granted the option to earn a 100% interest in the Peru Property. Pursuant to the Alcon Agreement, Alcon could exercise the option by paying Caracara an aggregate of C$250,000 and issuing 2,000,000 common shares of Alcon to Caracara in various instalments over a three-year period.

As a result of Caracara optioning the Peru Property pursuant to the Alcon Agreement, Caracara no longer met the continued listing requirements of the Exchange. As a result, as of October 17, 2016, Caracara migrated to the NEX market, a sub-board of the Exchange, and traded under the symbol "CSV.H". On April 30, 2018, Caracara completed a 1-10 consolidation of the Caracara Shares and, effective at the opening on May 3, 2018, the Caracara Shares commenced trading on a consolidated basis under the symbol "SILV.H".

On November 10, 2018, Caracara and Alcon amended the Alcon Agreement to amend the consideration for the final payments under the Alcon Agreement to consist of: (i) C$75,000, settled with common shares of Alcon; (ii) C$61,611, settled in cash; and (iii) C$13,389 (US$10,000), settled in cash to Solex as consideration for the transfer of the Peru Property to a Peruvian subsidiary of Alcon. All of these conditions were satisfied and the Peru Property was transferred by Solex to the Peruvian subsidiary of Alcon, leaving Solex with no concession assets. As a result of the transfer of the Peru Property and in anticipation of the closing of the Transaction, Caracara commenced the wind-up and dissolution of Solex, which was completed on January 31, 2019. Caracara continues to hold a 1.5% net smelter returns royalty in the Peru Property (the "**Peru Royalty Interest**") in addition to the Alcon shares it received. Caracara does not expect to receive any revenue from Peru Royalty Interest in the next twelve months.

It is proposed that immediately prior to the completion of the Transaction, all issued and outstanding Caracara Shares will be further consolidated on the basis of 6.262 pre-second consolidation shares for one post-second consolidation share.

3.2 Acquisitions and Dispositions

<u>Xtraction</u>

On December 7, 2017, Archytas Ventures, LLC ("**Archytas**"), a company controlled by Messrs. Kivitz and Radbod, Khrysos Global, Inc. ("**Khrysos**"), a company controlled by Mr. Dwayne Dundore, Xtraction Services, Inc. (a Florida corporation that has since been dissolved and is not related to Xtraction) and Dwayne Dundore entered into a letter agreement (the "**Initial Khrysos Agreement**"), pursuant to which, among other things, the parties to the agreement had agreed to form a new entity, Xtraction, in which Khrysos or its designee would own a 40% equity interest and in which Archytas or its designees would own a 60% interest. The Initial Khrysos Agreement also provided Xtraction with an exclusive right to offer for sale or lease any equipment designed for or which may be used for the cannabis industry produced by or at the direction of Khrysos or any of its affiliates.

Through 2018, Xtraction worked with Khrysos to distribute its Co2 and ancillary extraction equipment. Recently, Xtraction signed an agreement to lease equipment to Carolina Botanical Development LLC ("**Carolina Botanical**"), a company in which Khrysos is an investor. Meanwhile, Xtraction has since expanded its vendor network to include additional equipment manufacturers which can provide tailored solutions for its expanding customer base. This was primarily driven by Xtraction's determination that in addition to Co2 equipment, there is a growing need for equipment leasing in a variety of different processing technologies, in particular ethanol technology, given its advantages in processing hemp. Xtraction's marketing efforts and sales outreach helped to increase the visibility of its brand but also resulted in new relationships and opportunities.

The recent signing in the United States of the Agriculture Improvement Act of 2018 creates significant opportunities in CBD extraction through hemp, and the demand in related equipment has bolstered Xtraction's pipeline. Moreover, Xtraction's sales department became inundated with potential customers who have identified the equipment they wish to acquire but require the equipment leasing solutions the Resulting Issuer provides. Given these equipment dynamics, Xtraction elected to become equipment/manufacturer agnostic, choosing to work with the most established equipment producers irrespective of their technology.

Financing Activities

Over three tranches in April 2018 and May 2018, Xtraction completed a non-brokered private placement of an aggregate of 2,765 units of Xtraction (each a "**May Unit**"), at a price of US$1,000 per May Unit raising aggregate gross proceeds of US$2,765,000. Each May Unit is comprised of one (1) convertible debenture of Xtraction with a principal value of US$1,000 (each, a "**May Debenture**") and 250 Xtraction Share purchase warrants (each, a "**May Warrant**"). Each May Warrant entitles the holder thereof to purchase one (1) Xtraction Share at an exercise price of US$0.80 per share for a period of 24 months after the applicable closing date of the private placement. Each May Debenture bears interest at a rate of 8% per annum, payable quarterly until the date that is two (2) years from the applicable closing date of the private placement (the "**May Offering Maturity Date**"). The principal amount of May Debentures plus interest accrued, beginning October 2018, is convertible into Xtraction Shares: (i) at the option of the holder at any time prior to the May Offering Maturity Date, or (ii) automatically immediately prior to a liquidity event (such as the Transaction), in each case at a conversion price of US$0.60 per Xtraction Share. In connection with the offering, Xtraction issued 149,000 advisory warrants (each, an "**Xtraction May Advisory Warrant**") to certain finders which entitles such holders to acquire one (1) Xtraction Share at a price of US$0.60 per Xtraction Share until the date that is two (2) years from the date of issuance.

Over four tranches between September and December 2018, Xtraction completed a subsequent non-brokered private placement comprised of an aggregate of 3,506 convertible debentures with a principal value of US$1,000 (each, a "**September Debenture**"), raising aggregate gross proceeds of US$3,506,000. Each September Debenture bears interest at a rate of 10% per annum and matures on the date that is two years from issuance of the September Debentures (the "**September Offering Maturity Date**"). The principal amount of September Debentures plus accrued interest is convertible into units of Xtraction ("**September Debenture Units**") at 85% of the subscription receipt issue price of the next qualified securities issued, as defined or at a conversion price of $0.85 if a qualified financing event is not completed prior to a liquidity event, as defined. Subject to closing the Subscription Receipt Financing, the conversion price will be fixed at C$0.94. In March 2019, Xtraction amended the conversion feature of the September Debentures pursuant to which each holder of such debentures will receive, upon conversion at C$0.94 thereof, one Xtraction Share and Xtraction Share purchase warrant, which has a C$1.50 (US$1.12) exercise price and a five year term.

In connection with the offering, Xtraction issued 241,527 Xtraction advisory warrants (each, an "**Xtraction September Advisory Warrant**") to certain finders. 35,294 of such warrants entitling holders to acquire one (1) Xtraction Share at a price equal US$0.85 per Xtraction Share until the date that is two (2) years from the date of issuance and the remaining 206,233 warrants having a term of two (2) years and an exercise price equal to the greater of 85% of the subscription receipt issue price of the next qualified securities issued, as defined, or US$0.85.

In November and December 2018 Xtraction issued an aggregate of 58,235 warrants (each a "**2018 Service Provider Warrant**") to service providers with a two (2) year term entitling the holder to acquire one (1) Xtraction Share at an exercise price equal to the greater of 85% of the subscription receipt issue price of the next qualified securities issued by Xtraction, as defined, or US$0.85.

On March 22, 2019 and April 26, 2019, Xtraction completed a private placement of 5,882 subscription receipts (each, a "**Subscription Receipt**") at a price of C$1,000 per Subscription Receipt for aggregate gross proceeds of C$5,882,000 (the "**Subscription Receipt Financing**"). Each Subscription Receipt is, upon satisfaction of the escrow release conditions contemplated under the Subscription Receipt Financing, convertible into one 10% unsecured convertible debenture of Xtraction in the principal amount of C$1,000 (each, a "**Sub Receipt Debenture**"). Each Sub Receipt Debenture will mature on the date which is five (5) years from issuance and be convertible, at the election of the holder thereof at any time prior to such date subject to earlier conversion or redemption by Xtraction, into one unit of Xtraction (each, a "**Sub Receipt Unit**") at a conversion price of C$1.10 per Sub Receipt Unit. Each Sub Receipt Unit is comprised of one Xtraction Share and one Xtraction Share purchase warrant (each whole warrant, a "**Sub Receipt Warrant**"). Each Sub Receipt Warrant is exercisable into one Xtraction Share at a price of C$1.50 per share for a period of five (5) years from the date the escrow release conditions are satisfied, as contemplated under the Subscription Receipt Financing.

In connection with the Subscription Receipt Financing, Xtraction issued 774,308 broker and agent warrants ("each, a **"Sub Receipt Broker Warrant**") with 374,308 of the warrants entitling each holder to acquire one Sub Receipt Unit at a price of C$1.10 over a period of five (5) years from the date the escrow release conditions are satisfied. Upon exercise the holders receive one (1) Xtraction Share and one (1) Xtraction Share purchase warrant, which has a C$1.50 exercise price and a five (5) year term. The remaining 400,000 warrants has a two (2) year term and a C$1.10 exercise price. Additionally Xtraction issued 294 Sub Receipt Debentures with a principal value of US$1,000 (each a **"Sub Receipt Debenture"**) with an aggregate principal amount of C$294,000 to brokers and agents. Each Sub Receipt Debenture bears interest at a rate of 10% per annum payable quarterly and matures on the date that is five (5) years from date of the issuance. The Sub Receipt Debenture can be converted at C$1.10 into one (1) Xtraction Share and one (1) Xtraction Share purchase warrant at any time prior to maturity or in a change in control. The warrants have an exercise price of C$1.50 and a five (5) year term. Upon a change in control, Xtraction is required to purchase at 105% of the principal and interest.

Following the completion of the Transaction, upon conversion thereof, each holder of a Sub Receipt Debenture shall be entitled to receive one Resulting Issuer Share and one Resulting Issuer Share purchase warrant (each, a "**Resulting Issuer Sub Receipt Warrant**") reflecting the same terms as the Sub Receipt Warrant.

In April and May 2019, Xtraction agreed to issue 712,045 Xtraction Shares to investment advisors and a third party service provider.

In May 2019, Xtraction sold 45,455 Xtraction Shares to a service provider at a price of C$1.10, with such proceeds being used to pay another service provider, which is an entity that is a related party to the investor.

In April 2019, Xtraction issued 500,000 warrants (each a **"April 2019 Warrant"**) to an advisor entitling the holder to acquire one (1) Xtraction Share at a price equal C$1.10 per Xtraction Share until the date that is five (5) years from the date of issuance.

In May 2019, Xtraction issued 36,818 warrants (each a **"2019 Service Provider Warrant"**) to a service provider entitling the holder to acquire one (1) Xtraction Share at a price equal C$1.10 per Xtraction Share until the date that is two (2) years from the date of issuance.

In January, February, March and April 2019, Xtraction received US$1,100,000 in the form of term loans from Archytas. The term loans have maturity dates ranging from six months to one year and bear interest at a rate of 18% per annum, payable monthly.

Prepaid Service Equipment

As at March 31, 2019, Xtraction had $2,799,952 in prepaid service equipment. This included service equipment that had been purchased but not yet installed and service equipment which had not yet been allocated to a customer. The largest portion of this prepaid service equipment amount, approximately

$965,000, relates to Xtraction's contract with Puritix. Xtraction had agreed to install two production lines of extraction equipment for Puritix but due to delays in production and financing, only 3/4 of each line is currently up and running with more deliveries underway. Taking into account deliveries made, $532,000 of equipment moved into the producing category in the second quarter of Xtraction's 2019 fiscal year end.

The second most significant of the prepaid equipment with a value of approximately $500,000 relates to Xtraction's contract with Carolina Botanical. Xtraction delivered equipment to Carolina Botanical in in the second quarter of Xtraction's 2019 fiscal year end which resulted in $500,000 of equipment migrating from "prepaid service equipment" to "service equipment" in Xtraction's financial statements.

Service equipment which have not yet been allocated to a customer were purchased on favourable terms and represents standard components which will be built into future Xtraction build-outs. Xtraction has since streamlined its procurement process so that, going forward, it will have less capital tied up in equipment which isn't immediately used to generate revenues.

<u>Caracara</u>

Acquisitions and Dispositions

Caracara has not completed any significant acquisition or significant disposition during its most recently completed financial year or its current financial year for which *pro forma* financial statements would be required under National Instrument 41-101 *General Prospectus Requirements* if this Listing Statement were a prospectus.

Financing Activities

On June 11, 2018, Caracara completed a private placement offering of an aggregate of 16,213,333 units of Caracara (each, a "**Caracara Unit**") at a price of C$0.075 per Caracara Unit for aggregate gross proceeds of C$1,216,000. Each Caracara Unit was comprised of one (1) common share of Caracara (the "**Caracara Shares**") and one (1) purchase warrant (each, a "**Caracara Warrant**"). Each Caracara Warrant entitled the holder thereof to purchase one (1) Caracara Share at a price of C$0.15 until June 10, 2019. In connection with the offering, Caracara issued 451,743 broker units (each, a "**Caracara Broker Unit**") to certain finders which entitled such holders to acquire one (1) Caracara Unit at a price of C$0.10 per Caracara Unit until December 10, 2018.

On November 7, 2017, Caracara completed a non-brokered private placement of an aggregate of 30,000,000 Caracara Units at a price of C$0.005 per Caracara Unit (or $0.05 per Caracara Unit on a post-Consolidation basis) for aggregate gross proceeds of C$150,000. Each Caracara Unit was comprised of one (1) Caracara Share and one (1) Caracara Warrant. Each Caracara Warrant entitled the holder thereof to purchase one (1) Caracara Share at a price of C$0.005 (or $0.05 per share on a post-Consolidation basis) until November 17, 2018.

3.3 Industry Background and Trends

Industry and Regulatory Overview

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* ("**Staff Notice 51-352**") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

Xtraction is involved in ancillary activities that, according to Staff Notice 51-352, would categorize Xtraction as a U.S. Marijuana Issuer with material ancillary involvement in the cultivation and distribution of cannabis in the following states: California, Kentucky and South Carolina. As of the date hereof, Xtraction has no further direct or indirect cannabis-related activity elsewhere in the United States. As a result of Xtraction's ancillary involvement in the aforementioned states, Xtraction is subject to Staff Notice 51-352 and accordingly provides the below disclosure.

United States Federal Overview

In the United States, 33 states, Washington D.C., and Puerto Rico have legalized medical marijuana, while 11 states and Washington D.C. have also legalized recreational marijuana. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the CSA. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remains illegal under United States federal.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has, at least until recently, trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("**DOJ**") issued a memorandum known as the "**Cole Memorandum**" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medial or recreational cannabis programs. The Cole Memorandum, while not legally binding, served as prosecutorial guidance, and laid a framework for managing the conflict between state and federal laws concerning state-regulated marijuana businesses.

However, on January 4, 2018 the Cole Memorandum was revoked by former Attorney General Jeff Sessions, a long time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated marijuana industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, former Attorney General Sessions also issued a one-page memorandum known as the "**Sessions Memorandum**." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in so doing: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "**USAM**"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion.

Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. Greg Scott, the U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would "evaluate violations of those laws in accordance with our district's federal law enforcement priorities and resources."

Former U.S. Attorney General Jeff Sessions resigned on November 7, 2018 and was replaced by Matthew Whitaker as interim Attorney General. On February 14, 2019, William Barr was sworn in as Attorney General. It is unclear what position the new Attorney General will take on the enforcement of federal laws with regard to the U.S. cannabis industry. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdiction

It is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum. While initial fears of a nationwide "crackdown" have not yet materialized, considerable uncertainty remains.

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the production, sale, and disbursement of medical or recreational marijuana, even if state law sanctioned such production, sale, and disbursement. It remains unclear whether the risk of enforcement has actually been altered.

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a memorandum on February 14, 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a Suspicious Activity Report ("**SAR**") in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These marijuana-related SARs are divided into three categories: (i) marijuana limited; (ii) marijuana priority; and (iii) marijuana terminated, based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated.

On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum (the "**2014 Cole Memo**") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

However, former Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact.

Enforcement of U.S. Federal Laws

For the reasons set forth above, Xtraction's existing ancillary involvement in the United States, and any future ancillary involvement, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, Xtraction may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Xtraction's ability to continue to operate its business in the United States or other jurisdiction.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which Xtraction could expand.

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on Xtraction, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for Xtraction to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

U.S. Enforcement Proceedings

Since 2014, the United States Congress has passed appropriations bills which included provisions to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law (currently the "**Leahy Amendment**", but also referred to as the Rohrabacher-Farr Amendment). On December 22, 2018, Congress failed to pass the 2019 Fiscal Year Appropriations Bill, including the Leahy Amendment, causing a shutdown of the federal government. During a federal government shutdown, certain "nonessential" governmental programs are stalled; however, federal law enforcement and prosecution actions are exempted from furlough, thus Drug Enforcement Administration agents and federal prosecutors can operate without any restriction otherwise imposed by the spending bill regarding interference with the cannabis industry. Accordingly, during a shutdown, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis business that are otherwise compliant with state law.

On January 25, 2019, President Trump ended the government shutdown but announced that he may shutdown the government again on February 15, 2019 if, by that time, Congress has not agreed on the final 2019 Fiscal Year Appropriations Bill which includes sufficient funding for a border wall between the United States and Mexico. On February 15, 2019, President Trump avoided another government shutdown and signed the 2019 Fiscal Year Appropriations Bill which included the Leahy Amendment, extending its application until the end of the 2019 fiscal year on September 30, 2019. There can be no assurances that the Leahy Amendment will be included in future appropriations bills.

2018 Farm Bill

In December 2018, President Trump signed the 2018 Farm Bill, which contained certain provisions legalizing the production, extraction, interstate commerce, etc., of industrial hemp. Industrial hemp is defined as hemp which contains less than 0.3% THC, the cannabinoid most commonly associated with intoxication which is contained within cannabis and hemp plants, on a dry weight basis. This bill legalizes U.S. hemp for production and sale across state lines for research and commercial uses for all hemp that meets all the following criteria: the hemp contains less than 0.3% THC; the producer of the hemp is licensed by the state where it was grown; and the state where it was grown has a hemp program approved by the United States Department of Agriculture ("**USDA**"). Each state is allowed to submit a hemp regulatory program for USDA approval. The USDA will be working on reviewing submitted programs and constructing a hemp regulatory program for all states with no submitted program. No programs are currently approved by the USDA. Once a program is approved, producers may apply for licenses under the program and sell hemp legally for all purposes after the license is obtained. Hemp is a genetically related plant to cannabis and has long been prohibited based at least in part on its similarity to cannabis, which tends to contain significantly higher amounts of THC than hemp. Hemp, unlike cannabis plants which tend to be richer in THC, is the most common source of CBD. Research suggests that CBD is a non-psychoactive cannabinoid which may have several therapeutic effects. CBD is increasingly becoming popular as a wellness product, and its usage as an adjunct to THC is increasing as well.

U.S. Overview by State

California's Regulation of Cannabis

In 1996, California voters passed a medical marijuana law allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the *Medical Marijuana Regulation and Safety Act* ("**MMRSA**"). In 2016, California voters passed *The Adult Use of Marijuana Act* ("**AUMA**"), which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combines California's medicinal and adult-use cannabis regulatory frameworks into one licensing structure under the *Medicinal and Adult-Use of Cannabis Regulation and Safety Act* ("**MAUCRSA**").

Pursuant to MAUCRSA: (1) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators; (2) the California Department of Public Health, via the Manufactured Cannabis Safety Branch (the "**MCSB**"), issues licenses to cannabis manufacturers and (3) the California Department of Consumer Affairs, via the Bureau of Cannabis Control (the "**BCC**"), issues licenses to cannabis distributors, testing laboratories, retailers, and microbusinesses. These agencies also oversee the various aspects of implementing and maintaining California's cannabis landscape, including the statewide track and trace system. All three agencies released their emergency rulemakings at the end of 2017, and updated them with revisions in June 2018. The three agencies released their permanent rulemakings, which are now in effect, on January 16, 2019. All three agencies began issuing temporary licenses in January 2018 and are currently evaluating annual license applications. The issuance of temporary licenses ended on December 31, 2018, though previously-issued temporary licenses remain valid until their expiration dates. To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. California has not set a limit on the number of states license an entity may hold, unlike other states that have restricted how many cannabis licenses an entity may hold in total or for various types of cannabis activity. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership under MAUCRSA.

California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator's licensed operations. Compliance with local law is a prerequisite to obtaining and maintaining state licensure, and all three state regulatory agencies require confirmation from the locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality's jurisdiction.

License types are designated into two classes: Type M (medical) or Type A (adult use). There are 20 types of licenses, and a single entity may possess both Type M and Type A licenses, across six different categories:

- **Cultivation Facility:** license to (1) cultivate, process and package cannabis; and (2) sell cannabis to other licensed cannabis businesses, but not to consumers.

- **Distributor:** license to (1) purchase cannabis and cannabis products, as applicable from cultivators, manufacturers, microbusinesses and other distributors; (2) store cannabis and cannabis products; (3) perform quality assurance and facilitate cannabis and cannabis product testing by a laboratory; (4) sell cannabis to other licensed cannabis businesses; and (5) transport cannabis and cannabis products from a cannabis licensee's premises to another cannabis licensee's premises.

- **Product Manufacturing Facility:** license to (1) purchase cannabis and cannabis products, as applicable, from cultivators, other manufacturers, microbusinesses and distributors; (2) manufacture, process, and package cannabis and cannabis products; and (3) sell cannabis and cannabis products to distributors and retailers, but not to consumers. Pursuant to this category, cannabis products include edibles, ointments, tinctures, oils and other concentrates.

- **Testing Laboratory:** license to test cannabis and cannabis products for potency and contaminants, in compliance with MAUCRSA and its resulting regulations.

- **Retailer:** license to (1) purchase cannabis and cannabis products from cultivators, manufacturers, and distributors; and (2) sell cannabis and cannabis products directly to consumers.

- **Microbusiness:** depending on the specific activities listed on a microbusiness's license application, a microbusiness may partake in any of the following activities or a combination thereof: (1) cultivate cannabis on an area less than 10,000 square feet; (2) purchase cannabis and cannabis products from cultivators, manufacturers, other microbusinesses, and distributors; (3) store cannabis and cannabis products; (4) perform quality assurance and facilitate cannabis and

> cannabis product testing by a licensed laboratory; (5) sell cannabis and cannabis products to other licensed cannabis businesses; (6) transport cannabis and cannabis products from one cannabis licensee's premises to another; (7) manufacture, process and package cannabis and cannabis products; and (8) sell cannabis and cannabis products directly to consumers. To hold a microbusiness license, a licensee must engage in at least three types of commercial cannabis activities.

MAUCRSA permits vertical integration by allowing licensees to hold licenses in multiple separate licensing categories. Every license must have its applicable commercial cannabis activity conducted within a single-premises, which must be contiguous. Although multiple premises are allowed on a given parcel, each licensed premises must be sufficiently separate from any other premises, i.e., having separate entrances and exits and no shared common areas. Importantly, licensees may not sublet any portion of their licensed premises, and therefore, a licensee cannot lease a multi-unit building and sublease one of the licensed units out.

Only businesses engaged in "commercial cannabis activity" are required to have a license – ancillary services, technology, and know-how, such as those offered by Xtraction, are not included on a licensee's license unless their interests in the licensed entity amount to "ownership" or a "financial interest."

Under MAUCRSA, an "owner" no longer distinguishes between public and private companies. An owner is: (1) anyone with an aggregate ownership interest of 20% or more in the applicant, unless the interest is solely a security, lien, or encumbrance, (2) the chief executive officer of a nonprofit or other entity, (3) a member of the board of directors for a nonprofit, or (4) an individual participating in the direction, control, or management of the applicant. Each owner of the entity applying for a cannabis license is required to submit fingerprint images and background checks. Such fingerprinting requirement extends to shareholders holding 5% or more of the equity of the applicant's public company owner. Financial interest holders include, but are not limited to, anyone with an aggregate ownership interest of 20% or more in the applicant or those entitled to a portion of a licensee's profits. Financial interest holders do not need to undergo fingerprinting and background checks.

Retail cannabis businesses must pay tax on gross receipts (i.e. all revenues in whatever form and before any deductions whatsoever). A cannabis tax return is required whether or not taxes are owed during the month. Failure to submit timely tax returns and payments result in a penalty equal to a percentage of the amount of the tax in addition to the amount of the tax, plus interest on the unpaid tax calculated from the original due date.

With respect to zoning and land use requirements, applicants are required to provide written authorization from the property owner where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises.

With respect to record-keeping and continuous reporting requirements, California's state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program. Disclosure requirements for local authorizations may vary, but generally tend to mirror the State's requirements. Licensees must also keep detailed records pertaining to various aspects of the business for up to seven years. Such records must be easily accessible by any regulatory agency from which the licensee has a license. Additionally, licensees must record all business transactions, which provisional and annual license holders must upload to the statewide traceability system.

With respect to operating procedure requirements, applicants must submit standard operating procedures describing how the operator will, among other requirements, secure the facility, manage inventory, comply with the State's seed-to-sale tracking requirements, dispense cannabis, and handle waste, as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

With respect to site-visits and inspections, California operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility, as well as all of the facility's books and records, to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

With respect to prosecutorial statements and actions, the following information is available:

- David L. Anderson, U.S. Attorney for the Northern District of California, has made no public comments regarding his stance on prosecuting cannabis since being appointed to the office in January 2019.

- McGregor Scott, Acting U.S. Attorney for the Eastern District of California, has made no personal statements regarding marijuana enforcement. However his office stated that marijuana violations in the Eastern District will be evaluated "in accordance with our district's federal law enforcement priorities and resources."

- Robert S. Brewer, Jr., Acting U.S. Attorney for the Southern District of California, has made no public comments regarding his stance on prosecuting cannabis. However, Mr. Brewer did state he would have considered using medical marijuana during his battle with non-Hodgkin lymphoma had it been available.

- Nicola Hanna, Acting U.S. Attorney for the Central District of California, has made no public comments regarding his stance on prosecuting cannabis since the repeal of the Cole Memorandum.

California's Regulation of Hemp

California's industrial hemp program is administered by the CDFA California Department of Food and Agriculture (the "**CDFA**"), which has delegated registration and oversight authority to county agricultural commissioners. In September 2018, California lawmakers passed a law (Senate Bill 1409), allowing CDFA to establish, by regulation, an agricultural pilot program that is compliant with the 2014 Farm Bill. That regulation has not yet been established; however, as of April 30, 2019, private growers may register with their local county agricultural commissioners to cultivate industrial hemp for commercial purposes. California law does not currently regulate (and licenses are not currently available for) the private manufacturing, processing, or sale of non-food industrial hemp or industrial hemp products.[1] California

[1] *Regulations on the Industrial Hemp Research Program in Arkansas, Section 12(D),* Arkansas State Plant Board (Aug. 21, 2018), https://www.agriculture.arkansas.gov/Websites/aad/files/*Content/6350524/8-31-2018_Final_RuleA*

Department of Public Health (the "**CDPH**") policy, last updated July 6, 2018, prohibits the sale of any food (including animal food or feed) to which hemp-derived CBD has been added.[2] If enacted, Assembly Bill 228 ("**AB 228**") would also prohibit the imposition of any additional restrictions on the sale of food, beverages, or cosmetics that include industrial hemp or cannabinoids, extracts, or derivatives from industrial hemp based solely on the inclusion of industrial hemp or cannabinoids, extracts, or derivatives from industrial hemp.[3] AB 228 was amended and passed out of the Committee on Health March 14, 2019, with 15 votes in favor and 0 votes opposed.[4] The bill was then amended and passed again by the Business and Professions Committee March 26, 2019, with 20 votes in favor and 0 votes opposed.[5] AB 228 was subsequently re-referred to the Assembly Appropriations Committee that same day.[6] On May 22, 2019, the bill was passed by the General Assembly and sent to the Senate.[7] The bill is currently in the Senate committee process, and has significant bipartisan support.[8]

Kentucky's Regulation of Hemp

Kentucky's robust Hemp Research Pilot Program is administered by the Kentucky Department of Agriculture and allows for the Department of Agriculture to work with license holders and affiliated universities to study methods of cultivation, processing, and marketing of industrial hemp.[9] On December 20, 2018, the Kentucky Department of Agriculture submitted plans to the USDA to maintain primary regulatory authority over Hemp production under the 2018 Farm Bill. The plan has not yet been approved, and the USDA has stated that it will not be approving any plans until federal regulations have been promulgated. Kentucky's current Industrial Hemp Pilot Program will remain in effect until new plans are approved by the USDA. The current program, regulates growers, processors, handlers and brokers of industrial hemp.[10] Additionally, in Kentucky, CBD derived from industrial hemp is excluded from the definition of marijuana, and therefore, it is not considered a controlled substance.[11] Kentucky does not require processors, handlers, brokers, or marketers of "publicly marketable hemp products" to have a license.[12] A "publicly marketable hemp product" is defined as a hemp product that "does not include any living hemp plants, viable seeds, leaf materials, floral materials, or delta-9-THC content above zero and three-tenths (0.3) percent" and includes "bare stalks, bast fiber, hurd fiber, nonviable roots, nonviable seeds, seed oils, and plant extracts."[13] Hemp-derived CBD isolate that does not contain more than 0.3% THC is considered a "publicly marketable hemp product," and thus can be transferred or sold to anyone; buyers are not required to be participants in the Hemp Research Pilot Program.[14] While Kentucky does not prohibit the transfer of "publicly marketable hemp products" to other states, it does specify that the burden is on the

R_Industrial_Hemp_Research_Program_in_Arkan sas.pdf.

[2] *Regulations on the Industrial Hemp Research Program in Arkansas, Section 12(F)*, Arkansas State Plant Board (Aug. 31, 2018), https://www.agriculture.arkansas.gov/Websites/aad/files/ Content /6350524/8-31-2018_Final_Rule-AR_Industrial_Hemp_Research_Program_in_Arkansas.pdf.

[3] Assembly Bill 228 (2019), http://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB228.

[4] Assembly Bill 228 (2019), Bill History, (last visited August 19, 2019) http://leginfo.legislature.ca.gov/faces/bill HistoryClient.xhtml?bill_id=201920200AB228

[5] *Ibid*.

[6] *Ibid*.

[7] *Ibid*.

[8] *Ibid*.

[9] KY. REV. STAT. ANN. § 260.850 to .869 (2018).

[10] KY. ADMIN. REGS 50:020; KY. ADMIN. REGS 50:030.

[11] KY. REV. STAT. ANN. § 218A.010(27) (2018).

[12] KY. ADMIN. REGS. 50:030 §2(1).

[13] *Ibid.* at §1(33).

[14] *Industrial Hemp Research Pilot Program Transfer Requirements*, KY. DEP'T. OF AGRIC. (Jan. 1, 2018), http://www.kyagr.com/marketing/documents/HEMP_RSTR_Transfer-Requirements.pdf

registrant and any affiliate to ensure compliance with applicable federal, state, and local law.[15] Additionally, Kentucky requires that all final batches of hemp-derived CBD extracts produced in Kentucky be tested to confirm that the batches do not contain more than 0.3% THC.[16] All test results must be retained by the program participants for a minimum of three years.[17]

South Carolina's Regulation of Hemp

South Carolina classifies hemp as an agricultural commodity and exempts THC in hemp and hemp products from the definition of marijuana under state law.[18] The term "hemp products" is defined in state law to mean "all products with the federally defined THC level for hemp derived from, or made by, processing hemp plants or hemp plant parts, that are prepared in a form available for commercial sale, including, but not limited to, cosmetics, personal care products, food intended for animal or human consumption, cloth, cordage, fiber, fuel, paint, paper, particleboard, plastics, and any product containing one or more hemp-derived cannabinoids, such as cannabidiol."[19] "Unprocessed or raw plant material, including nonsterilized hemp seeds, is not considered a hemp product."[20] South Carolina's hemp program was recently expanded via passage of the "Hemp Farming Act" (the "**HFA**") in March 2019.[21] Notably, the HFA removed the state's food adulteration protection provision applicable to the use of hemp as an ingredient in food products.[22] In place of such provision, the HFA explicitly provides that the program requirements contained in the HFA do "not apply to the possession, handling, transport, or sale of hemp products and extracts, including those containing hemp derived cannabinoids, including CBD," and that "nothing in this chapter authorizes any person to violate any federal or state law or regulation."[23] Further, although much of the original industrial hemp program requirements were repealed and replaced with the HFA, all current program participants will remain subject to the laws and regulations that were in place prior to the passage of the HFA for the duration of the current license term.

Compliance with Applicable State Law in the United States

To the knowledge of Xtraction, each state licensee with a business relationship with Xtraction complies with applicable U.S. state licensing requirements.

To the knowledge of Xtraction, each business holding a contractual relationship with Xtraction and/or its subsidiaries, that is a license holder, holds licenses that are in good standing to cultivate, possess and/or wholesale marijuana in its respective state in the United States in compliance with its respective state marijuana regulatory program. To the knowledge of Xtraction, no licensee has experienced any material non-compliance that would endanger the status of any license.

Xtraction is in compliance with applicable U.S. state and local law. Xtraction has engaged United States legal counsel to advise Xtraction in connection with compliance with applicable state laws on an ongoing basis.

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[15] *Ibid*.
[16] *Ibid*.
[17] *Ibid*.
[18] S.C. CODE ANN. §§ 46-55-10 (2018).
[19] S.C. CODE ANN. § 46-55-10(9) (2018).
[20] *Ibid*.
[21] HB 3449, 123rd Gen. Assemb., 2019 Reg. Sess. (S.C. 2019).
[22] *Ibid*.
[23] *Ibid*.

<u>Table of Concordance</u>

In accordance with Staff Notice 51-352, below is a table of concordance that is intended to assist readers in identifying those parts of this Listing Statement that address the disclosure expectations outlined in Staff Notice 51-352.

Industry Involvement	**Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties**	**Listing Statement Cross Reference**
All Issuers with U.S. Marijuana-Related Activities	Describe the nature of the issuer's involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.	Section 3 – General Development of the Business – *Industry and Background Trends* Section 4 – Narrative Description of the Business – *General Development of the Business of Xtraction*
	Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.	See Cover Page (disclosure in bold typeface)
	Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.	Section 3 – General Development of the Business – *Industry and Background Trends* Section 17 – Risk Factors – *Risk Factors specifically related to the United States Regulatory System* Section 17 – Risk Factors – *Risk of Civil Asset Forfeiture* Section 17 – Risk Factors – *Xtraction's operations in the United States may be subject to heightened scrutiny.* Section 17 – Risk Factors – *Enforceability of Contracts* Section 17 – Risk Factors – *Xtraction is subject to applicable anti-money laundering laws and regulations.*

Industry Involvement	**Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties**	**Listing Statement Cross Reference**
	Given the illegality of marijuana under U.S. federal law, discuss the issuer's ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.	Section 4 – Narrative Description of the Business – *Principal Purposes of Funds* *Additional Financing* Section 17 – Risk Factors – *Ability to Access Private and Public Capital*
	Quantify the issuer's balance sheet and operating statement exposure to U.S. marijuana-related activities.	Section 5 – Selected Financial Information Schedule "A" to the Listing Statement.
	Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.	Legal advice has been obtained.
U.S. Marijuana Issuers with direct involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	Not applicable.
	Discuss the issuer's program for monitoring compliance with U.S. state law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. state law and the related licensing framework. Promptly disclose any non-compliance, citations or notices of violation which may have an impact on the issuer's licence, business activities or operations.	Not applicable.

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
U.S. Marijuana Issuers with indirect involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer's investee(s) operate.	Not applicable.
	Provide reasonable assurance, through either positive or negative statements, that the investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Promptly disclose any non-compliance, citations or notices of violation, of which the issuer is aware, that may have an impact on the investee's licence, business activities or operations.	Not applicable.
U.S. Marijuana Issuers with material ancillary involvement	Provide reasonable assurance, through either positive or negative statements, that the applicable customer's or investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	To the best of Xtraction's knowledge, its current customers' businesses are in compliance with the licensing requirements and regulatory frameworks enacted by each of the U.S. states in which each of the customers do business.

Growth of Cannabis Market

The growth of the retail cannabis market in the United States is projected to grow from approximately $5 billion as of 2016 to over $50 billion in 2026 based on certain assumptions including higher per-capita consumption and a consumer shift towards higher-end, more value-added cannabis products in legalized markets in the United States. [24]

Growth of Cannabis Concentrate Market

Sales of cannabis concentrates in the United States has been increasing at a rapid pace year over year. Sales of cannabis concentrates in the United States is projected to reach $8.4 billion in 2022, nearly matching the projected sales of flower based cannabis of $8.5 billion for such year.[25]

Lack of Financing Options for Cannabis Related Entities

[24] Cowen and Company, The Cannabis Compendium: Cross-Sector Views on a Budding Industry, AHEAD OF THE CURVE SERIES, September 12, 2016.
[25] https://bdsanalytics.com/new-report-cannabis-oil-the-hottest-product-category-now-catching-up-to-flower/

A challenge faced by entities in the cannabis industry is a lack of availability of banking services including access to loans and other credit facilities from banks. This barrier exists mainly as a result of cannabis being illegal under the federal laws of the United States which may lead to criminal prosecution for any bank that provides services to businesses involved in the cannabis industry. Even in those states where cannabis-related activity has been legalized, the United States Treasury Department guidance requires banks to file "suspicious activity" reports for every cannabis-related company transaction. As such, banks that do business with cannabis related companies may pass compliance costs on to their customers.

4. NARRATIVE DESCRIPTION OF THE BUSINESS

General Development of the Business of Xtraction

Xtraction is a provider of leasing, support and equipment distribution services. Xtraction works in conjunction with third party equipment manufacturers to source and fund equipment sales and leases ("**Equipment Leasing**") and provides certain value-added, ancillary services to both its Equipment Leasing customers and other entities in the cannabis and industrial hemp sector. Xtraction specializes in providing such services to owner/operators of cannabis and hemp oil extraction facilities, as well as companies requiring product testing services and formulated product makers. Xtraction sources its Equipment Leasing through both a direct sales model and in coordination with third party equipment manufacturers focusing on identifying direct equipment users who could benefit from Xtraction's Equipment Leasing and Ancillary Services.

Through the direct sales model, the Equipment Leasing program services an important market of growing businesses by acquiring and leasing equipment to customers, providing such customers with the ability to make capital intensive equipment purchases without a large initial outlay of funds, in an industry where access to capital is limited. In addition, through the indirect sales model, Xtraction's team focuses on equipment manufacturers who stand to benefit from extending such leasing to their end-customers and such customers' need for Ancillary Services. Xtraction also provides a value-add to its customers through the provision of support services, standard operating procedures, consultative sales assistance, and testing protocols beyond what is provided by equipment manufacturers whose products it is leasing (collectively, "**Ancillary Services**"). These Ancillary Services remain in high demand as new technologies in extraction and distillation continue to evolve. It is Xtraction's mission to provide support for all technical and operational components while alleviating the financial burden that comes with it.

Xtraction is led by David Kivitz, its Chief Executive Officer. Mr. Kivitz has extensive experience in scaling growth businesses, including nine years as Managing Partner of Alta Verde Group ("**AVG**"), a company he co-founded to acquire distressed residential assets resulting from the U.S. housing market crash. Under Mr. Kivitz's leadership, AVG successfully grew sales in excess of $50 million per year, raised over $250 million in various forms of land and construction financing, completed numerous property acquisitions and experienced significant organic growth.

Xtraction has organized its business activities around three core objectives: (i) equipment lease sourcing (see "Principal Products and Services – Equipment Leasing – Distribution and Customer Acquisition" below); (ii) credit and portfolio management services (see "Principal Products and Services – Equipment Leasing – Pricing" below); and (iii) corporate development.

With respect to corporate development, Xtraction continues to assess numerous acquisition opportunities and intends to focus on pursuing those opportunities that align with its acquisition growth objectives, primarily in the U.S., with assets will primarily consist of businesses that can provide Xtraction with immediate origination and processing capabilities and a strong local management team. While Xtraction takes a disciplined approach to acquisition opportunities it is willing to pursue, it believes that significant strategic and accretive opportunities exist as many current equipment and specialty leasing firms throughout the U.S. lack sufficient access to capital or are burdened with expensive capital structures. By scaling up through organic and external growth initiatives, Xtraction believes significant synergies could be realized including greater brand visibility, increased market penetration and a decreased cost of capital.

In addition, following the Transaction, the Resulting Issuer will benefit from any revenue earned from the Peru Royalty Interest and the Alcon shares currently held by Caracara.

Business Objectives and Strategy

The following table sets out the Resulting Issuer's business objectives and strategy for the 12 month period following the completion of the Transaction, the milestones or events which must occur to satisfy such business objectives and the estimated costs:

Business Objective	**Milestone/Event Which Must Occur to Satisfy Business Objective**	**Estimated Costs**
Acquiring new customers	Secure contracts with eight (8) new customers.	US$200,000
Hiring and adding new personnel to its underwriting, sales and operations teams.	Complete hiring of four (4) new employees.	U$200,000
Expanding and automating its underwriting policies	Implementation of a software that will strengthen and simplify the Resulting Issuer's underwriting policies.	U$50,000
Securing debt financing	Secure source of debt financing that will provide the Resulting Issuer with funds of at least US$5,000,000.	U$50,000

The Resulting Issuer's long-term objectives include: (i) expanding supplier relationships with existing and new manufacturers of cannabis extraction and other types of equipment; (ii) expanding its equipment leasing portfolio with entities involved in the processing and testing of cannabis; and (iii) strengthening its core capital to reduce the cost of capital and reduce or eliminate dependence on third party financing.

Xtraction entered into a royalty based equipment lease and service agreement with Puritix, LLC ("**Puritix**") on November 16, 2018 to provide Puritix with two (2) full production lines of equipment which will be used to produce CBD distillate oil. Per the terms of the agreement, Xtraction will receive $1 per gram of distillate oil that is produced through the equipment by Puritix for a period of thirty (30) months with a minimum monthly revenue requirement to Xtraction of $50,000. As of June 2019, Xtraction is awaiting delivery and final installation of servicing equipment at Puritix. Xtraction anticipates revenues to commence shortly after installation is complete. For clarity, no revenues from Puritix have been included in the estimated funds available for the next 12 months as discussed in the "Funds Available" section of this Listing Statement.

Xtraction is reliant on the various equipment manufacturers who will supply the equipment to complete this and all installations. Should the various original equipment manufacturers supplying equipment have issues, including with respect to delivery timing, backlog, service and or support, this could impact Xtraction's ability to complete installations in a timely manner, which could impact contracts with its customers, and its ability to generate revenue in the near term.

Funds Available

Xtraction has historically relied upon debt and equity financings to satisfy its capital requirements and may require further equity and/or debt capital to finance its development, expansion and activities moving forward.

The working capital of Caracara as at June 30, 2019 is estimated to be CAD$900,000 (US$700,000). The cash-settled working capital deficiency[26] of Xtraction as at June 30, 2019 is estimated to be US$400,000 and includes an estimated US$450,000 of cash on hand. It is expected that the resulting issuer will have an estimated US$5,250,000 of funds available for use, which include the net proceeds of approximately US$4,100,000 raised pursuant to the Subscription Receipt Financing (which funds will be released upon satisfaction of the release conditions of the Subscription Receipt Financing which includes completion of the Transaction) and Xtraction and Caracara's estimated cash positions of US$450,000 and US$700,000, respectively. It is expected the resulting issuer will have cash-settled working capital of US$4,400,000 (assuming a CAD:USD exchange rate of CAD$1.30 = USD$1.00).

Principal Purposes of Funds

The Resulting Issuer intends to use the estimated funds available to it as set out in the following table within a period of 12 months from the completion of the Transaction:

Use of Available Funds	**Amount (United States Dollars)**
Working Capital Purposes (including new hires)	$1,750,000(1)
Marketing and Customer Focused Initiatives	$200,000(2)
Debt Principal Repayment	$1,100,000(3)
Accrued and Future Interest Payments	$850,000(4)
Transaction Related Fees	$500,000(5)

(1) This amount is expected to fund ongoing general and corporate expenses of the Resulting Issuer and its subsidiaries including in respect of rent, professional fees, salaries and fees owed to current employees and consultants and additional new hires that the Resulting Issuer intends to make. In addition, the Resulting Issuer expects to use approximately $500,000 of such funds for equipment purchases related to the Puritix arrangement.

(2) This amount is expected to fund various initiatives aimed at growing the Resulting Issuer's customer base including attending trade shows.

(3) The Resulting Issuer intends to pay such amount in respect of debt owing to Archytas, which principal amount of such debt was used by Xtraction for working capital purposes and the acquisition of inventory.

(4) This amount is expected to satisfy accrued interest and interest that will be owing to Archytas and certain convertible debenture holders. The accrued interest and future interest related to principal debt which was used by Xtraction for working capital purposes and the acquisition of servicing equipment.

[26] Xtraction defines cash-settled working capital as current assets less current cash-settled liabilities. This adjustment removes warrant derivative liabilities, unearned revenue, redeemable common shares and accrued interest to be settled by the issuance of shares.

(5) This amount is expected to fund fees incurred by the Resulting Issuer in connection with the Transaction which include estimated Canadian and United States legal counsel fees ($300,000), audit and tax fees ($100,000), transfer agent fees ($50,000) and other transaction related fees ($50,000).

Notwithstanding the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Resulting Issuer to achieve its objectives. The amounts shown in the table above are estimates only and are based on the information available to the Resulting Issuer as of the date of this Listing Statement.

Given the fact that the legal cannabis industry is emerging, it is difficult at this time to definitively project revenue or the commensurate funds required to complete the planned undertakings of the Resulting Issuer. For these and other reasons, management considers it to be in the best interests of the Resulting Issuer to permit management a reasonable degree of flexibility as to how the Resulting Issuer's funds are deployed among the above uses and/or to pursue other business objectives including, without limitation, the building out and expansion of the Resulting Issuer's leasing portfolio and ancillary services.

Xtraction has incurred losses and negative cash flows from operations since inception indicate the existence of material uncertainties which cast substantial doubt on Xtraction's ability to continue as a going concern. Xtraction's ability to continue as a going concern is dependent on achieving a profitable level of operations and obtain additional financing, neither of which are assured. Xtraction anticipates incurring additional losses until such time it can generate sufficient revenue from its operations to cover its expenses. The Resulting Issuer may require additional funds in order to pursue and fulfil such other business objectives, and may seek to issue additional securities or incur debt in order to do so. Historically, Xtraction has been successful in obtaining enough funding for operating and capital requirements, however, there can be no assurance that additional funding required by the Resulting Issuer will be available, if required.

Principal Products or Services

The Resulting Issuer's primary product and service offerings include Equipment Leasing and Ancillary Services.

Equipment Leasing

Xtraction currently operates within the mid-ticket segment of the cannabis and hemp equipment industry which involves leasing equipment ranging in value from approximately US$10,000 to over US$1,000,000. The cannabis and hemp equipment leasing industry in the U.S. is currently limited due to the federal illegality of cannabis and the various state and federal restrictions on cannabis and hemp. This dynamic presents an opportunity for cannabis and hemp equipment leasing from alternative providers of lease financing.

Pricing

Xtraction's pricing strategy is in-line with market terms and allows it to be price competitive. Lease and royalty revenues are derived from leased equipment and typically incorporate additional margin due to Xtraction's relationships with industry equipment manufacturers. Xtraction's pricing strategy, particularly as it relates to its leasing business, may be impacted by certain factors including fluctuations in interest rates. Xtraction continually monitors its pricing strategy to ensure its remains competitive. See "Competitive Conditions" below.

For any Equipment Leasing, Xtraction believes that effective credit management is critical to its success. Xtraction has adopted and uses a comprehensive underwriting process, which takes into consideration the business objectives, strategies and credit philosophies of Xtraction, in considering prospective new business leases within its business units and for managing its existing asset portfolio. Xtraction's underwriting process ensures that all applications for credit receive final approval from the company's senior management team. Xtraction's senior management team regularly reviews and monitors the credit process to ensure that its contents prudently reflect Xtraction's current business objectives and strategies as well as economic conditions currently in effect.

The following summary provides certain information about Xtraction's credit approval process and risk management expertise with respect to equipment that it sells or leases to customers in consideration for monthly lease payments, some or all of which, may be utilized to determine approval limits:

- Application
    - Customer application includes a mix between personal and business identification and financial details
    - Business overview and equipment specification request
- Credit Adjudication
    - Application information is combined with underlying data from a customer's credit report, when applicable
    - Determines customer acceptability, credit limit and leasing charges
- Affordability
    - Detailed review of financial statements, business plans, bank statements, tax records, and pro forma projections
    - Establishes a maximum lease amount based on ability to repay
    - Guarantees or other assets, where applicable
- Verification
    - Supporting documentation validation including identity, customer consent, residency, credit report, banking history, income, expenses, corporate documentation, background checks
- Fulfillment
    - Documentation generation/signatures
    - Centralized funding control

Distribution and Customer Acquisition

Xtraction has a multi-pronged approach for customer acquisition. Xtraction's retail channel is focused on content strategy to position the company as a thought leader in cannabis and hemp extraction. Customers turn to Xtraction technicians and sales representatives to provide guidance on equipment technology, process, regulatory challenges, and standard operating procedures. Xtraction works hand-in-hand with the customer to recommend the equipment that will create the final product they desire.

Xtraction is also focused on channel marketing through its relationships with industry equipment manufacturers. By providing equipment sales and leasing solutions, Xtraction provides the bridge between manufacturers and their end customers. This strategy decreases Xtraction's customer acquisition costs and reduces the sales closing timeline. Xtraction has a robust pipeline and a continuous flow of inbound requests from customers looking for equipment leasing options. We have a highly trained team concentrated on targeting high-value targets for Xtraction.

Xtraction has created a streamlined process utilizing technologies for lead generation, underwriting, digital targeting, and customer relationship management ("**CRM**") to maximize resources and human capital. Xtraction currently has a considerable audience of interested parties seeking equipment leasing and service for extraction, preprocessing and post processing equipment. These companies range in location, maturity, size, and equipment needs. While a majority of these are considered viable customers, Xtraction has chosen to be selective in determining the customers to whom it extends its services.

Ancillary Services

From soil to oil, Xtraction's team consists of professionals with backgrounds in chemistry, genetics, horticulture and operations, who assist companies in the hemp and cannabis space achieve their objectives. With decades of experience in pharmaceuticals, agriculture and academics, Xtraction's team brings well-rounded capabilities and perspectives to support customer objectives of increasing yields and enhancing product quality.

With quality of the end-product being directly correlated with the feedstock, it is vital that processors assess their biomass. Xtraction consults with local growers to assist and validate conditions and production values. Xtraction incorporates analytical assessment for potency and moisture content to aide in the development of procedures and determination of the most compatible technologies. Analytics is utilized throughout the entire production cycle to assist in optimization of processes.

Xtraction's experience and direct relationships with manufacturers allows Xtraction to provide support in all facets of processing. Xtraction supports all extraction, distillation, crystallization, remediation and manufacturing. In addition to determination, procurement and installation of cutting-edge technologies, Xtraction's team assists in staffing and training of personnel to operate and maintain all systems.

Intellectual Property

Xtraction's early mover advantage has allowed it to secure a majority of the search terms affiliated with extraction equipment leasing, thus positioning the company on the top results with various search engines. This is also attributed to the press coverage and grassroots marketing the company implemented in its infancy.

Reliance on Customers

Xtraction's revenue is derived from customers in the United States with three customers representing greater than 90% of total revenues since inception.

Competitors

While Xtraction is not aware of any entity that provides the same products and services as that of Xtraction, it regards companies, such as Trichome Financial Corp., Reich Brothers, Sweet Leaf Capital and Auxly Cannabis Group Inc., as its competitors. While not being offered at scale currently, it is also possible that certain equipment manufacturers may elect to initiate in house leasing or financing programs that would compete with Xtraction. Other types of companies that may offer a portion of Xtraction's offerings, specifically focused on extraction consulting, would include firms such as Xabis, Medicine Man Technologies, American Cannabis Company, and Green Dot Labs.

Employees

As of the May 31, 2019, Xtraction had five employees and four independent contractors. Xtraction prides itself in hiring talented individuals with a complementary mix of professional experience and industry knowledge. Xtraction believes it has an advantage in attracting these employees with its strong reputation as a leader in the sector and its unique approach to leasing. Xtraction believes in investing in each of its employees and devotes the necessary resources to ensure all employees are given the proper tools and resources to grow in their respective fields. Xtraction also believes in cultivating a collaborative working environment wherein everyone is valued for their contribution to the team and rewarded for their accomplishments.

As of May 31, 2019, all of Xtraction's employees were non-unionized.

General Development of the Business of Caracara

On August 31, 2016, Caracara executed an option agreement with Alcon, whereby Alcon was granted the option to earn a 100% interest in the Peru Property. Pursuant to the Alcon Agreement, Alcon could exercise the option by paying Caracara an aggregate of C$250,000 and issuing 2,000,000 common shares of Alcon to Caracara in various instalments over a three-year period.

On November 10, 2018, Caracara and Alcon amended the Alcon Agreement to amend the consideration for the final payments under the Alcon Agreement to consist of: (i) C$75,000, settled with common shares of Alcon; (ii) C$61,611, settled in cash; and (iii) C$13,389 (US$10,000), settled in cash to Solex as consideration for the transfer of the Peru Property to a Peruvian subsidiary of Alcon. All of these conditions were satisfied and the Peru Property was transferred by Solex to the Peruvian subsidiary of Alcon, leaving Solex with no concession assets. As a result of the transfer of the Peru Property and in anticipation of the closing of the Transaction, Caracara commenced the wind-up and dissolution of Solex, which was completed on January 31, 2019. Caracara continues to hold Peru Royalty Interest in addition to the Alcon shares it received. For clarity, no revenues from the Peru Royalty Interest or the Alcon shares have been included in the estimated funds available for the next 12 months as discussed in the "Funds Available" section of this Listing Statement.

5. SELECTED FINANCIAL INFORMATION

Xtraction Financial Statements

The following table sets out certain selected financial information of Xtraction in summary form for the period from inception (October 9, 2017) through December 31, 2017, year ended December 31, 2018 and the three month period ended March 31, 2019. This selected financial information has been derived from and should be read in conjunction with Xtraction's financial statements for the period from inception (October 9, 2017) through December 31, 2017, year ended December 31, 2018 and the three month period ended March 31, 2019 and which are attached to this Listing Statement as Schedule "A". All amounts presented are in United States dollars.

	As at and from period of inception (October 9, 2017) through December 31, 2017 ($)	**As at and for the year ended December 31, 2018 ($)**	**As at and for the three month period ended March 31, 2019 ($)**

Statements of Comprehensive Loss			
Revenue	Nil	146,776	541,317
Loss from operations	(250,295)	(4,564,619)	(1,149,777)
Loss and comprehensive loss	(375,057)	(5,839,645)	(5,142,741)
Loss per share / unit (basic and diluted)	(0.02)	(0.21)	(0.16)
Statements of Financial Position			
Total assets	3,491,541	6,691,867	6,656,032
Total long-term liabilities	1,266,299	5,308,141	8,310,909
Cash dividends per share	0	0	0

Caracara Financial Statements

The following table sets out certain selected financial information of Caracara in summary form for the years ended June 30, 2018 and June 30, 2017, and the nine month period ended March 31, 2019. This selected financial information has been derived from and should be read in conjunction with Caracara's financial statements for the years ended June 30, 2017 and June 30, 2018 and the nine month period ended March 31, 2019 and which are attached to this Listing Statement as Schedule "C".

	As at and for the year ended June 30, 2017 (C$)	**As at and for the year ended June 30, 2018 (C$)**	**As at and for the nine month period ended March 31, 2019 (C$)**
Statement of Operations			
Total revenue	0	0	0
Net income (loss) from continuing operations	0	0	0
Net income (loss)	(75,925)	(109,504)	(78,424)
Net income (loss) per share (basic and diluted)	(0.01)	(0.01)	(0.00)
Statement of Financial Position			
Total assets	5,753	1,135,713	1,099,088
Total long-term liabilities	0	0	0
Cash dividends per share	0	0	0

Resulting Issuer Pro Forma Financial Statements

The unaudited pro forma consolidated statement of financial position of the Resulting Issuer is attached as Schedule "E" to this Listing Statement. The unaudited pro forma consolidated statement of financial position of the Resulting Issuer as at March 31, 2019 has been prepared from the financial statements of Xtraction (see Schedule "A") and the financial statements of Caracara (see Schedule "C"). The unaudited *pro forma* consolidated statement of financial position of the Resulting Issuer gives effect to the proposed

Transaction, as described herein and in the notes to the unaudited *pro forma* statement of financial position of the Resulting Issuer. The unaudited pro forma consolidated statement of financial position and the notes thereto should be read in conjunction with the financial statements of Xtraction and Caracara, including the notes thereto, included at Schedules "A" and "C" hereto, respectively

Dividends

Neither Caracara nor Xtraction have paid dividends on the Caracara Shares and the Xtraction Shares in the past, respectively.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

See Schedule "B" – "*Management's Discussion and Analysis of Xtraction*" and Schedule "D" – "*Management's Discussion and Analysis of Caracara*"

7. MARKET FOR SECURITIES

Prior to listing on the CSE, the Caracara Shares were listed for trading on the NEX Board of the TSX Venture Exchange under the symbol "SILV.H". It is expected that the Resulting Issuer Shares will trade on the CSE under the symbol "XS". There is no public market for any securities of Xtraction.

8. CONSOLIDATED CAPITALIZATION

The following table summarizes the share capital of Caracara, Xtraction and the Resulting Issuer both prior and after giving effect to the Transaction:

Description	**Amount Outstanding Prior to the Transaction Closing Date**	**Amount Outstanding After the Transaction Closing Date**
Caracara		
Caracara Shares	24,402,901	Nil
Caracara Warrants	16,213,333	Nil
Xtraction		
Xtraction Shares (1)	33,258,738	Nil
Xtraction Convertible Debentures (principal amount outstanding)	$6,565,000	Nil
Xtraction Warrants (2)	2,601,138	Nil
Xtraction Options (3)	2,512,652	Nil
Resulting Issuer		
Resulting Issuer Common Shares (1) (4)	Nil	29,062,223
Resulting Issuer Proportionate Voting Shares (5)	Nil	18,478.660
Resulting Issuer Options	Nil	2,512,652
Resulting Issuer Warrants (6)	Nil	16,617,623
Resulting Issuer Debentures (principal amount outstanding) (7)	Nil	C$6,176,000

Notes:
(1) Comprised of 32,580,088 class A common stock and 678,650 class B common stock. Up to an additional 327,272 Xtraction Shares are issuable pursuant to commitments.
(2) Includes 150,000 warrants to be issued prior to the Transaction Closing Date.
(3) Excludes 830,000 options which were forfeited in May 2019 as a result of an employee resignation.
(4) Includes conversion of interest accrued on Xtraction Debentures assuming an August 31, 2019 Transaction Closing Date.
(5) Represents 18,478,660 Resulting Issuer Common Shares as converted.
(6) Includes 374,308 underlying warrants issuable upon exercise of Sub Receipt Broker Warrants, 5,614,544 warrants that would be outstanding upon conversion of the Sub Receipt Debentures and 267,267 warrants on conversion of the C$294,000 convertible debt.
(7) 10% unsecured convertible debentures comprised of Sub Receipts and Sub Receipt Debentures.

Other than as disclosed in this Listing Statement, there have not been any material changes in the share or loan capital of Xtraction or Caracara since December 31, 2018 and June 30, 2018, respectively.

9. OPTIONS TO PURCHASE SECURITIES

The following table sets forth the aggregate number of options of the Resulting Issuer (the "**Resulting Issuer Options**") that will be outstanding upon completion of the Transaction.

	Resulting Issuer Shares under Options Granted	Exercise Price	Date of Grant	Expiry Date
Executive officers of Xtraction	250,000 (1)	US$0.60	07/19/18	07/19/28
Executive officers of all subsidiaries of Xtraction, excluding those listed directly above	Nil	N/A	N/A	N/A
Directors of Xtraction (who are not also officers)	Nil	N/A	N/A	N/A
Directors of all subsidiaries of Xtraction, excluding those listed directly above	Nil	N/A	N/A	N/A
Other employees and former employees of Xtraction	38,435	US$0.60	07/19/18	07/19/28
Other employees and former employees of all subsidiaries of Xtraction	Nil	N/A	N/A	N/A
Consultants of Xtraction	1,897,523	US$0.60	07/19/18	07/19/28
Any other person or company	326,694	US$0.60	07/19/18	07/19/28
Total	2,512,652			

Notes:
(1) Includes 200,000 options held by Archytas.

Upon completion of the Transaction, all outstanding Resulting Issuer Options will be governed by the terms of an omnibus incentive plan (the "**Omnibus Incentive Plan**") under which Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Deferred Stock Units or Other Stock-Based Awards may be granted to the Resulting Issuer's directors, officers, employees and consultants.

Summary of the Omnibus Incentive Plan

The purpose of the Omnibus Incentive Plan is to attract, retain and reward those employees, directors and other individuals who are expected to contribute significantly to the success of the Resulting Issuer, to incentivize such individuals to perform at the highest level, to strengthen the mutuality of interests between such individuals and the Resulting Issuer's Shareholders and, in general, to further the best interests of the Resulting Issuer and the Resulting Issuer's Shareholders. The Omnibus Incentive Plan is intended to comply with Section 422 of the U.S. Internal Revenue Code of 1986 (the "**Code**") with respect to the U.S. employees participating in the Omnibus Incentive Plan, if and when applicable.

The aggregate number of Resulting Issuer Shares which are reserved for issuance pursuant to all Awards granted under the Omnibus Incentive Plan is fixed at 15% of the issued and outstanding Resulting Issuer Shares from time-to-time when taken together with all other Security Based Compensation Arrangements (as defined in the Omnibus Incentive Plan) of the Resulting Issuer, provided no more than 10,000,000 Resulting Issuer Shares may be reserved and available under the Omnibus Incentive Plan.

The following is a summary of the material terms of the Omnibus Incentive Plan:

(i) Subject to adjustment as provided in the Omnibus Incentive Plan, the aggregate number of Resulting Issuer Shares that may be issued under all Awards under the Omnibus Incentive Plan shall be 15% of the number of Resulting Issuer Shares outstanding, up to a maximum of 10,000,000 Resulting Issuer Shares;

(ii) no non-employee director may be granted any Award or Awards denominated in Resulting Issuer Shares that exceed in the aggregate US$100,000 (such value computed as of the date of grant in accordance with applicable financial accounting rules) in any calendar year;

(iii) with respect to Options:

> (A) the purchase price per Resulting Issuer Share purchasable under an Option shall be determined by a committee of the Board (the "**Committee**") and shall not, except in the case of certain exceptions as set out in the Omnibus Incentive Plan, be less than 100% of the Fair Market Value (as defined in the Omnibus Incentive Plan) of a Resulting Issuer Share on the date of grant of such Option; and
>
> (B) the term of each Option shall be fixed by the Committee at the date of grant but shall not be longer than ten years from the date of grant;

(iv) with respect to Incentive Stock Options (as defined in the Omnibus Incentive Plan):

(A) the Committee will not grant Incentive Stock Options in which the aggregate Fair Market Value (determined as of the time the Option is granted) of the Resulting Issuer Shares with respect to which Incentive Stock Options are exercisable for the first time by any participant during any calendar year shall exceed US$100,000;

(A) the maximum number of Resulting Issuer Shares that may be issued pursuant to Incentive Stock Options shall not exceed 15% of the number of Resulting Issuer Shares outstanding;

(B) all Incentive Stock Options must be granted within ten years from the earlier of the date on which the Omnibus Incentive Plan was adopted by the Board or the date the Omnibus Incentive Plan was approved by the shareholders of the Resulting Issuer;

(C) all Incentive Stock Options shall expire and no longer be exercisable no later than 10 years after the date of grant;

(D) the terms of any Incentive Stock Options shall comply in all respects with the provisions of Section 422 of the U.S. internal Revenue Code of 1986; and

(E) the purchase price per Resulting Issuer Share for an Incentive Stock Option shall be not less than 100% of the Fair Market Value of a Resulting Issuer Share on the date of grant of the Incentive Stock Option; *provided*, *however*, that, in the case of the grant of an Incentive Stock Option to a participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) shares possessing more than 10% of the total combined voting power of all classes of shares of the Resulting Issuer, the purchase price per Resulting Issuer Share purchasable under an Incentive Stock Option shall be not less than 110% of the Fair Market Value of a Resulting Issuer Share on the last trading date prior to the grant of such Incentive Stock Option;

(v) with respect to Stock Appreciation Rights;

(A) Stock Appreciation Rights granted under the Omnibus Incentive Plan may be granted either alone or in addition to other Awards and may, but need not, relate to a specific Option grant;

(B) any tandem Stock Appreciation Rights related to an Option may be granted at the same time as such Option. In the case of any tandem Stock Appreciation Right related to any Option, the Stock Appreciation Right or applicable portion thereof shall not be exercisable until the related Option or applicable portion thereof is exercisable and shall terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a Stock Appreciation Right granted with respect to less than the full number of Resulting Issuer Shares covered by a related Option shall not be reduced until the exercise or termination of the related Option exceeds the number of Resulting Issuer Shares not covered by the Stock Appreciation Right; and

(C) the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee, provided that a freestanding Stock Appreciation Right shall not have a term of greater than 10 years or, unless it is a Substitute Award (as defined in the Omnibus Incentive Plan), an exercise price less than 100% of Fair Market Value of the Resulting Issuer Share on the last trading date prior to the date of grant.

(vi) shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose;

(vii) the Committee, in its discretion, may award Dividend Equivalents with respect to Awards of Deferred Stock Units and the entitlements on such Dividend Equivalents will not be available until the expiration of the deferral period for the Award of the Deferred Stock Units; and

(viii) with respect to Other-Stock Based Awards, the Committee is authorized to grant such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Resulting Issuer Shares, as are deemed by the Committee to be consistent with the purpose of the Omnibus Incentive Plan and the Committee shall determine the terms and conditions of such Awards.

Notwithstanding the above, the number of Resulting Issuer Shares which are issuable to Insiders (as defined in the Omnibus Incentive Plan) under all Security Based Compensation Arrangements of the Resulting Issuer may not exceed 10% of the issued and outstanding Resulting Issuer Shares and the number of Resulting Issuer Shares issued to Insiders within any one-year period, under all Security Based Compensation Arrangements of the Resulting Issuer, may not exceed 10% of the issued and outstanding Resulting Issuer Shares.

10. DESCRIPTION OF THE SECURITIES

The authorized share capital of the Resulting Issuer following the completion of the Transaction shall consist of an unlimited number of common shares (the "**Resulting Issuer Common Shares**") and an unlimited number of proportionate voting shares (the "Resulting Issuer Proportionate Voting Shares" and, together with the Resulting Issuer Common Shares, the "**Resulting Issuer Shares**"). Generally, the Resulting Issuer Common Shares and the Resulting Issuer Proportionate Voting Shares have the same rights, are equal in all respects and will be treated by the Resulting Issuer as if they were shares of one class only.

Conversion Rights for holders of Resulting Issuer Proportionate Voting Shares

Each Resulting Issuer Proportionate Voting Share, including fractions thereof, may at any time, subject to the FPI Condition and Conversion Event (each as defined below), at the option of the holder, be converted into 1,000 Resulting Issuer Common Shares per Resulting Issuer Proportionate Voting Share. For the purposes of the foregoing:

"**FPI**" means foreign private issuer" (as determined in accordance with Rule 3b-4 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")).

"**FPI Condition**" means such time as when the aggregate number of Resulting Issuer Common Shares and Resulting Issuer Proportionate Voting Shares (calculated as a single class) held of record, directly or indirectly, by residents of the United States (as determined in accordance with Rules 3b-4 and 12g3-2(a) under the Exchange Act) exceeds forty percent (40%) of the aggregate number of Resulting Issuer Common Shares and Resulting Issuer Proportionate Voting Shares issued and outstanding after giving effect to a conversion of Resulting Issuer Proportionate Voting Shares (calculated as a single class).

"**Conversion Event**" means such time as when the Resulting Issuer Board determines that it is no longer advisable to maintain the Resulting Issuer Proportionate Voting Shares as a separate class of shares and causes all of the issued and outstanding Resulting Issuer Proportionate Voting Shares to be converted into Resulting Issuer Common Shares at a ratio of 1,000 Resulting Issuer Common Shares per Proportionate Voting Share.

The Resulting Issuer Proportionate Voting Shares will not be transferrable without the approval of the Resulting Issuer Board, except to certain permitted holders and in compliance with U.S. securities laws.

Conversion Rights for holders of Resulting Issuer Common Shares

In the event that an offer ("**Offer**") is made to purchase Resulting Issuer Proportionate Voting Shares, and such offer is:

(a) required, pursuant to applicable securities legislation or the rules of any stock exchange on which the Resulting Issuer Proportionate Voting Shares may then be listed, to be made to all or substantially all of the holders of Resulting Issuer Proportionate Voting Shares in a province or territory of Canada to which the requirement applies; and

(b) not made to the holders of Resulting Issuer Common Shares for consideration per Resulting Issuer Common Share equal to 0.001 of the consideration offered per Resulting Issuer Proportionate Voting Share;

each Resulting Issuer Common Share shall become convertible at the option of the holder into Resulting Issuer Proportionate Voting Shares on the basis of one thousand (1,000) Resulting Issuer Common Shares for one (1) Resulting Issuer Proportionate Voting Share, at any time while the Offer is in effect until one day after the time prescribed by applicable securities legislation or stock exchange rules for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. For avoidance of doubt, fractions of Resulting Issuer Proportionate Voting Shares may be issued in respect of any amount of Resulting Issuer Common Shares in respect of which such conversion right is exercised which is less than one thousand (1,000).

Voting Rights

All holders of Resulting Issuer Shares will be entitled to receive notice of any meeting of shareholders of the Resulting Issuer, and to attend, vote and speak at such meetings, except those meetings at which only holders of a specific class of shares are entitled to vote separately as a class under the BCBCA. A quorum for the transaction of business at a meeting of shareholders is present if shareholders who, together, hold not fewer than 25% of the votes attaching to the outstanding voting shares entitled to vote at the meeting are present in person or represented by proxy.

On all matters upon which holders of Shares are entitled to vote, each Resulting Issuer Common Share is entitled to one vote per Resulting Issuer Common Share and each Resulting Issuer Proportionate Voting Share is entitled to 1,000 votes per Proportionate Voting Share, and each fraction of a Proportionate Voting Share is entitled to the number of votes calculated by multiplying the fraction by 1,000. The number of votes represented by fractional Proportionate Voting Shares will be rounded down to the nearest whole number.

Unless a different majority is required by law or the articles of the Resulting Issuer, resolutions to be approved by holders of Shares require approval by a simple majority of the total number of votes of all Shares cast at a meeting of shareholders at which a quorum is present based on the voting entitlements of each class of Shares described above.

Dividends

Holders of Shares are entitled to receive dividends out of the assets available for the payment or distribution of dividends at such times and in such amount and form as the Resulting Issuer Board may from time to time determine, on the following basis, and otherwise without preference or distinction among or between the Shares: each Resulting Issuer Proportionate Voting Share will be entitled to 1,000 times the amount paid or distributed per Resulting Issuer Common Share (including by way of share dividends, which holders of Resulting Issuer Proportionate Voting Shares will receive in Resulting Issuer Proportionate Voting Shares, unless otherwise determined by the Resulting Issuer Board) and each fraction of a Resulting Issuer Proportionate Voting Share will be entitled to the applicable fraction thereof.

Liquidation Rights

In the event of the liquidation, dissolution or winding-up of the Resulting Issuer or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, whether voluntarily or involuntarily, the holders of Shares will be entitled to receive all of the Resulting Issuer’s assets remaining after payment of all debts and other liabilities, on the basis that each Resulting Issuer Proportionate Voting Share will be entitled to 1,000 times the amount distributed per Resulting Issuer Common Share (and each fraction of a Resulting Issuer Proportionate Voting Share will be entitled to the amount calculated by multiplying the fraction by the amount otherwise payable in respect of a whole Resulting Issuer Proportionate Voting Share), and otherwise without preference or distinction among or between the Resulting Issuer Shares.

Prior Sales

Caracara

The following table summarizes issuances of Caracara securities within the twelve months prior to the date of the Listing Statement.

Date	Type of Security	Number of Securities	Issue/Exercise Price per Security
June 11, 2018	Caracara Units	16,213,333	C$0.075 per Caracara Unit(1)
June 11, 2018	Caracara Broker Units	451,743	C$0.10 per Caracara Broker Unit(2)

Notes:
(1) Each Caracara Unit consists of: (i) one (1) Caracara Share, and (ii) one (1) Caracara Warrant, with each such Caracara Warrant entitling the holder thereof to purchase one (1) Caracara Share at an exercise price of $0.15 per Caracara Share until June 10, 2019.
(2) Each Caracara Broker Unit entitled the holder thereof to acquire one (1) Caracara Unit at a price of C$0.10 per Caracara Unit until December 10, 2018.

Xtraction

The following table summarizes issuances of Xtraction securities within the twelve months prior to the date of the Listing Statement.

Date	Type of Security	Number of Securities	Issue/Exercise Price per Security
September 10, 2018	September Debentures	2,000	US$1,000 per convertible debenture(1)
September 21, 2018	September Debentures	785	US$1,000 per convertible debenture(1)
October 17, 2018	September Advisory Warrants	35,294	US$0.85 per broker warrant(2)
October 17, 2018	September Debentures	500	US$1,000 per convertible debenture(1)
October 30, 2018	September Advisory Warrants	32,118	US$0.85 per broker warrant(3)
November 28, 2018	2018 Service Provider Warrants	31,765	US$0.85 per broker warrant(4)
December 5, 2018	2018 Service Provider Warrants	26,470	US$0.85 per broker warrant(4)
December 27, 2018	September Debentures	221	US$1,000 per convertible debenture(1)
December 31, 2018	September Advisory Warrants	174,115	US$0.85 per broker warrant(3)
March 22, 2019	Subscription Receipts	5,415	C$1,000 per subscription receipt(5)
March 22, 2019	Sub Receipt Broker Warrants	400,000	C$1.10 per broker warrant(6)
March 22, 2019	Sub Receipt Broker Warrants	344,591	C$1.10 per broker warrant(7)

March 22, 2019	Sub Receipt Debentures	270	C$1.10 per debenture(8)
April 12, 2019	Common Shares	620,000	C$1.10 per share(9)
April 12, 2019	April 2019 Warrants	500,000	C$1.10 per broker warrant(10)
April 26, 2019	Subscription Receipts	467	C$1,000 per subscription receipt(5)
April 26, 2019	Sub Receipt Debentures	24	C$1.10 per debenture(8)
April 26, 2019	Sub Receipt Broker Warrants	29,717	C$1.10 per broker warrant(7)
May 15, 2019	2019 Service Provider Warrants	36,818	C$1.10 per warrant(11)
May 27, 2019	Common Shares	45,455	C$1.10 per share(12)
May 31, 2019	Common Shares	92,045	C$1.10 per share(13)
June 30, 2019	Warrants issuable	150,000	C$1.10 per share(14)

Notes:

(1) Each September Debenture is convertible into one (1) Xtraction Share and one (1) September Debenture Unit Warrant automatically prior to a liquidity event, subject to closing the Subscription Receipt Financing, the conversion price will be fixed at C$0.94.

(2) September Advisory Warrant is exercisable into Xtraction Shares at a price of $0.85 until October 17, 2020.

(3) September Advisory Warrant is exercisable into one Xtraction Share at the greater of 85% of the subscription receipt issue price of the next qualified securities issued, as defined or at a conversion price of $0.85 until 2 years from issuance.

(4) Each 2018 Service Provider Warrant is exercisable into one Xtraction Share at the greater of 85% of the subscription receipt issue price of the next qualified securities issued, as defined or at a conversion price of $0.85 until 2 years from issuance.

(5) Upon satisfaction of the escrow conditions, each Subscription Receipt will be issued and is convertible Sub Receipt Debentures.

(6) Each Sub Receipt Broker Warrant is exercisable into one Xtraction Share at a price of C$1.10 until March 22, 2021.

(7) Each Sub Receipt Broker Warrant entitles the holder to acquire one Sub Receipt Unit at a price of C$1.10 over a period of five (5) years from the date the escrow release conditions are satisfied. Upon exercise the holders receive one Xtraction Share and one Xtraction Share purchase warrant, which has a C$1.50 exercise price and a five year term.

(8) Each Sub Receipt Debenture is converted at C$1.10 into one Xtraction Share and one Xtraction Share purchase warrant at any time prior to maturity or upon a change in control. The warrants have an exercise price of C$1.50 and a 5 year term. Upon a change in control, Xtraction is required to purchase at 105% of the principal and interest.

(9) In April 2019 Xtraction agreed to issue 620,000 Xtraction Shares at a price of C$1.10.

(10) Each April 2019 Warrant is exercisable into one Xtraction Share at a price of C$1.10 until April 12, 2024.

(11) Each 2019 Service Provider Warrant is exercisable into one Xtraction Share at a price of C$1.10 until May 15, 2021.

(12) In May 2019 Xtraction sold 45,455 Xtraction Shares at a price of C$1.10 to a third party service provider and used the proceeds to pay for the services of another service provider.

(13) In May 2019 Xtraction agreed to issue 92,045 Xtraction Shares at a price of C$1.10.

(14) Warrants to be issued prior to the Transaction Closing Date.

Stock Exchange Price

The Caracara Shares are currently listed and posted for trading on the NEX Board of the TSXV under the symbol "NEX-SILV.H". The following table shows the price ranges and volume of Caracara Shares traded during the last twelve months.

Month	High ($)	Low ($)	Volume
July 2019	N/A	N/A	N/A
June 2019	N/A	N/A	N/A
May 2019	N/A	N/A	N/A
April 2019	N/A	N/A	N/A
March 2019	N/A	N/A	N/A
February 2019	N/A	N/A	N/A
January 2019	N/A	N/A	N/A
December 2019	N/A	N/A	N/A
November 2019	N/A	N/A	N/A
October 2018	N/A	N/A	N/A
September 2018	N/A	N/A	N/A
August 2018	$0.11[(1)]	$0.08[(1)]	33,134[(1)]
July 2018	$0.135	$0.09	303,765
June 2018	$0.18	$0.125	254,666

(1) The Caracara Shares were halted from trading on August 13, 2018.

11. ESCROWED SECURITIES

As required under the policies of the CSE, principals of the Resulting Issuer will, in connection with the completion of the Transaction, enter into an escrow agreement (the "**Escrow Agreement**") as if it was subject to the requirements of National Policy 46-201 – *Escrow for Initial Public Offerings* ("**NP 46-201**"). The escrow agent is Odyssey Trust Company. Escrow releases will be scheduled at periods specified in NP 46-201 for emerging issuers. The form of the escrow agreement must be as provided in NP 46-201, subject to the aforementioned modifications. The following Resulting Issuer Shares held by the persons set out below will be held in escrow on completion of the Transaction:

Securityholder	Number and Type of Resulting Issuer Shares Held in Escrow	Percentage of Class
Archytas Ventures, LLC	11,143.847 (Resulting Issuer Proportionate Voting Shares)	60.3%
Khrysos Global Inc.	5,588.826 (Resulting Issuer Proportionate Voting Shares)	30.3%

All of the foregoing Resulting Issuer Shares are to be released from escrow based on the following schedule:

Proportion to be Released	Release Date
1/10th of the escrowed shares	Transaction Closing Date
1/6th of the escrowed shares	6 months from the Transaction Closing Date
1/5th of the escrowed shares	12 months from the Transaction Closing Date
1/4th of the escrowed shares	18 months from the Transaction Closing Date

1/3rd of the escrowed shares	24 months from the Transaction Closing Date
1/2 of the escrowed shares	30 months from the Transaction Closing Date
the remaining escrowed shares	36 months from the Transaction Closing Date

In addition, the following Resulting Issuer Shares are subject to lock-up agreements pursuant to which holders of such shares have agreed, subject to customary carve-outs and exceptions, not to sell any Resulting Issuer Shares held by them until the dates set out below:

Number of Resulting Issuer Common Shares Held in Escrow	Percentage of Class	Release Date
2,306,144	7.9%	31-Aug-2019
3,837,009	13.2%	31-Dec-2019
1,914,164	6.6%	29-Feb-2020
3,837,009	13.2%	30-Apr-2020
45,455	0.2%	31-May-2020
4,657,509	16.0%	31-Aug-2020
1,231,000	4.2%	31-Dec-2020
1,231,000	4.2%	30-Apr-2021
1,287,019	4.4%	31-Aug-2021
1,231,000	4.2%	31-Dec-2021

Number of Resulting Issuer Proportionate Voting Shares Held in Escrow	Percentage of Class	Release Date
18,478.660	100%	31-Aug-2022

12. PRINCIPAL SHAREHOLDERS

Other than as described below, to the knowledge of Xtraction and Caracara, no person or company will beneficially own, or control or direct, directly or indirectly, Resulting Issuer Shares carrying more than 10% of the voting rights attached to all outstanding Resulting Issuer Shares after completion of the Transaction.

To the knowledge of the directors and officers of each of Caracara and Xtraction, no Persons will beneficially own, directly or indirectly, or exercise control or direction over voting securities carrying more than 10% of the voting rights attached to any class of voting securities of the Resulting Issuer after the Closing of the Transaction, except as follows:

Name and Municipality of Residence	Type of Ownership	Number of Resulting Issuer Shares upon completion of the Transaction (3)	% of Resulting Issuer Shares (3)
Archytas Ventures, LLC (1)	Registered	11,143,847	23.4%
Khrysos Global, Inc. (2)	Registered	5,588,826	11.8%

(1) Archytas is controlled by David Kivitz and Antony Radbod.
(2) Owned by Dwayne Dundore.
(3) Resulting Issuer Proportionate Voting Shares shown as converted to Resulting Issuer Common Shares.

13. DIRECTORS AND OFFICERS

The following are summaries of the proposed directors and principal management of the Resulting Issuer, including their respective proposed positions with the Resulting Issuer and relevant work and educational background. All of the individuals below have entered into consulting and management agreements, which include non-competition and non-disclosure provisions, with Xtraction.

Name, Municipality of Residence, Occupation and Security Holdings

The following table lists the name, municipality of residence, office, principal occupation and the shareholdings of each director and proposed officer of the Resulting Issuer on Closing.

Name and Municipality of Residence	Current and/or Proposed Office	Principal Occupation During the Past Five Years	Resulting Issuer Shares owned, beneficially held or controlled assuming completion of the Transaction
David Kivitz(1) Los Angeles, California	Chief Executive Officer and Director of the Resulting Issuer	Former Managing Partner and Co-Founder, Alta Verde Group	11,143,847 Resulting Issuer Common Shares as converted) (2)
Joseph Fazzini Thornhill, Ontario	Chief Financial Officer & Corporate Secretary of the Resulting Issuer	Chief Financial Officer & VP Corporate Development, Eastmain Resources; Chief Financial Officer, Toachi Mining Inc.	Nil
Antony Radbod Los Angeles, California	Chief Marketing Officer and Director of the Resulting Issuer	Entrepreneur and technology executive; Founder of Nobody Media	Nil (3)
Gary Herman(1)(4) New York, New York	Director of the Resulting Issuer	Investment Manager	Nil
Stephen Christoffersen(1) Newport Beach, California	Director of the Resulting Issuer	Executive Vice President, Kush Co.	Nil

(1) Proposed member of the Resulting Issuer's audit committee.
(2) Resulting Issuer Shares held by Archytas which is controlled David Kivitz and Antony Radbod.
(3) See David Kivitz above for Resulting Issuer Shares controlled by Archytas.
(4) Proposed chair of the audit committee.

Assuming completion of the Transaction, all directors and proposed officers of the Resulting Issuer will hold an aggregate of 11,143,847 Resulting Issuer Shares, as converted, representing approximately 23.4% of the issued and outstanding Resulting Issuer Shares, as converted, on an undiluted basis.

The term of office of the directors expires annually at the time of the Resulting Issuer's annual general meeting or when or until their successor is duly appointed or elected. The term of office of the Resulting Issuer's executive officers expires at the discretion of the Resulting Issuer's directors. Two of the directors of the Resulting Issuer will not be independent of the Resulting Issuer within the meaning of National Instrument 58-101 *Disclosure of Corporate Governance* ("**NI 58-101**"). The remaining two proposed directors of the Resulting Issuer are considered to be independent within the meaning of NI 58-101.

Board Committees

Caracara currently has an audit committee and compensation committee. A brief description of each committee is set out below. Following the completion of the Transaction, the directors of the Resulting Issuer intend to establish such committees of the board as determined to be appropriate in addition to the audit committee and compensation committee.

Audit Committee

Audit Committee Charter

Caracara has adopted a written charter setting forth the responsibilities, powers and operations of the audit committee consistent with National Instrument 52-110 – *Audit Committees* ("**NI 52-110**"). The audit committee assists Caracara's board of directors in fulfilling its responsibilities for oversight of financial and accounting matters. The audit committee reviews the financial reports and other financial information provided by the Caracara to regulatory authorities and its shareholder and reviews the Caracara's system of internal controls regarding finance and accounting including auditing, accounting and financial reporting processes.

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- appoint, compensate, and oversee the work of any registered public accounting firm employed by Caracara;
- resolve any disagreements between management and the auditor regarding financial reporting.
- pre-approve all audit and non-audit services;
- retain independent counsel, accountants, or others to advise the audit committee or assist in the conduct of an investigation;
- seek any information it requires from employees; and
- meet with Caracara's officers, external auditors, or outside counsel, as necessary.

Composition of the Audit Committee

The audit committee assists Caracara's board of directors in fulfilling its responsibilities for oversight of financial and accounting matters. The audit committee reviews the financial reports and other financial information provided by the Caracara to regulatory authorities and its shareholder and reviews the Caracara's system of internal controls regarding finance and accounting including auditing, accounting and financial reporting processes.

The members of the audit committee of the Resulting Issuer after completion of the Transaction will include the following three directors. Also indicated is whether they are "independent" and "financially literate" within the meaning of National Instrument 52-110 – *Audit Committees* ("**NI 52-110**").

Name of Member	**Independent**(1)	**Financially Literate**(2)
Gary Herman (chair)	Yes	Yes
Stephen Christoffersen	Yes	Yes
David Kivitz	No	Yes

(1) A member of the audit committee is independent if he or she has no direct or indirect 'material relationship' with the Resulting Issuer. A material relationship is a relationship which could, in the view of the Resulting Issuer Board, reasonably interfere with the exercise of a member's independent judgment. An executive officer of the Resulting Issuer, such as the President or Secretary, is deemed to have a material relationship with the Resulting Issuer.
(2) A member of the audit committee is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Resulting Issuer's financial statements.

Xtraction believes the proposed composition of the Resulting Issuer's audit committee reflects a high level of financial literacy and expertise. Each member of the audit committee is "financially literate" within the meaning of applicable Canadian securities laws based on each member's education and experience. As at the date hereof, two existing members are considered "independent" for the purposes of NI 52-110.

Relevant Education and Experience

David Kivitz

Mr. Kivitz brings over 15 years of investment and operations experience in high growth businesses. He was previously a Managing Partner at the Alta Verde Group, a company he co-founded to acquire distressed real estate assets resulting from U.S. the housing market crash in 2008. Mr. Kivitz successfully grew the Alta Verde Group to over US$50 million in annual sales and in 2015 it was recognized as the #3 Fastest Growing Private Company in Los Angeles by The LA Business Journal. During his tenure at the Alta Verde Group, Mr. Kivitz also structured and closed in excess of US$250 million of land financing, debt, and equity to achieve scale for the company. Mr. Kivitz received a Bachelor of Business Administration with a concentration in Finance from the George Washington University.

Stephen Christoffersen

Stephen Christoffersen has 13 years of global capital markets and executive management experience. He currently serves as Executive Vice President of KushCo., an internationally recognized producer of ancillary products for global Cannabis space. Prior to joining KushCo. Mr. Christoffersen managed a US$500MM equity portfolio for a large bank and advised on M&A and fundraising initiatives for seed and growth stage companies. He received his Chartered Financial Analyst designation in 2015 and holds a B.S in Finance from UNLV.

Gary Herman

Mr. Herman has been a director of Xtraction since May 2019. Since 2005, Mr. Herman has managed Strategic Turnaround Equity Partners, LP (Cayman) and its affiliates. From January 2011 to August 2013, he was a managing member of Abacoa Capital Management, LLC, which managed, Abacoa Capital Master

Fund, Ltd. focused on a Global-Macro investment strategy. Since 2005, Mr. Herman has been a registered representative with Arcadia Securities LLC, a FINRA-registered broker-dealer based in New York. From 1997 to 2002, he was an investment banker with Burnham Securities, Inc. From 1993 to 1997, he was a managing partner of Kingshill Group, Inc., a merchant banking and financial firm. Mr. Herman has many years of investment experience as well as serving on the boards of public and private companies. Mr. Herman has a B.S. from the University at Albany with a major in Political Science and minors in Business and Music.

Audit Committee Oversight

At no time since the commencement of Caracara's most recently completed financial year, was a recommendation of the audit committee to nominate or compensate an external auditor not adopted by the Caracara board of directors.

Reliance on Certain Exemptions

At no time since the commencement of Caracara’s most recently completed financial year has Caracara relied on the exemption in section 2.4 of NI 52-110 (*De Minimis* Non-Audit Services), or an exemption from NI 52-110, in whole or in part, granted by the securities regulatory authority under Part 8 of NI 52-110 (Exemptions).

Pre-Approval Policies and Procedures

The Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services other than the general requirements under the heading “Authority” of the Audit Committee Charter which states that the Audit Committee must pre-approve any non-audit services.

External Auditor Service Fees (By Category)

The aggregate fees billed by Caracara’s external auditors in each of the last two financial years for audit and non-audit related services are as follows:

Financial Year	**Audit fees (C$)**	**Audit-Related Fees (C$)**	**Tax Fees (C$)**	**All Other Fees ($)**
Year ended June 30, 2018	$14,750	$330	$1,750	Nil
Year ended June 30, 2017	$15,000	Nil	$2,000	Nil

Exemption

As a venture issuer within the meaning of NI 52 -110, Caracara is relying upon the exemption provided by section 6.1 of NI 52-110, which exempts venture issuers from the requirements of Part *3, Composition of the Audit Committee* and Part *5, Reporting Obligations* of NI 52-110.

Following the completion of the Transaction, the board of directors of the Resulting Issuer intend to establish such committees of the board as it determines to be appropriate in addition to the Audit Committee. The members of the compensation committee will be determined after completion of the Transaction.

Cease Trade Orders

To Caracara and Xtraction's knowledge, except as disclosed hereinafter as at the date hereof, no director of Caracara or proposed director of the Resulting Issuer is, as at the date hereof, or has been within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including Caracara and Xtraction) that:

(a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days and that was issued while such individual was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after such individual ceased to be a director, chief executive officer or chief financial officer, and which resulted from an event that occurred while such individual was acting in the capacity as director, chief executive officer or chief financial officer.

Bankruptcies

To Caracara and Xtraction 's knowledge, no individual set forth in the above table or shareholder holding a sufficient number of securities of Caracara and Xtraction to affect materially the control of Caracara and Xtraction, nor any personal holding company of any such individual:

(a) is, as of the date hereof, or has been within 10 years before the date hereof, a director or executive officer of any company (including Caracara and Xtraction) that, while such individual was acting in that capacity, or within a year of such individual ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such individual; or

(c) has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority, or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Penalties or Sanctions

As of the date of this Listing Statement, no director, officer, insider or promoter of the Resulting Issuer or a shareholder holding a sufficient number of securities of the Resulting Issuer to affect materially the control of the Resulting Issuer has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by any securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or has been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that would be likely to be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

From time to time, the proposed directors and officers of the Resulting Issuer may serve as directors, officers, and members of management of other public companies, including companies in which the Resulting Issuer has investments, and may also be shareholders of such companies, and therefore it is possible that a conflict may arise between their duties as a director, officer, or member of management of such other companies, or their interests as a shareholder of such other companies, and as a director or officer of the Resulting Issuer.

The proposed directors of the Resulting Issuer are aware of the existence of laws governing accountability of directors and officers for corporate opportunities and requiring disclosures by directors and officers of conflicts of interest, and in the case of directors, requiring them to abstain from voting on matters in respect of which they have a conflict of interest. The Resulting Issuer will rely upon each director and officer to comply with such laws in respect of conflicts of interest and fiduciary duties

Proposed Management of the Resulting Issuer

A brief description of the biographies for all of the proposed officers and directors of the Resulting Issuer are set out below.

David Kivitz, President, Chief Executive Officer and Director

Mr. Kivitz brings over 15 years of investment and operations experience in high growth businesses. He was previously a Managing Partner at the Alta Verde Group, a company he co-founded to acquire distressed real estate assets resulting from U.S. the housing market crash in 2008. Mr. Kivitz successfully grew the Alta Verde Group to over US$50 million in annual sales and in 2015 it was recognized as the #3 Fastest Growing Private Company in Los Angeles by The LA Business Journal. During his tenure at the Alta Verde Group, Mr. Kivitz also structured and closed in excess of US$250 million of land financing, debt, and equity to achieve scale for the company. Mr. Kivitz will work in the capacity of the Chief Executive Officer of the Resulting Issuer devoting approximately 80% of his time to such role.

Joseph Fazzini*, Chief Financial Officer and Corporate Secretary*

Mr. Fazzini brings over 12 years of capital markets, finance and corporate management experience. With an in-depth background in equity analysis, investment valuation and project finance, Mr. Fazzini currently serves as Chief Financial Officer for Eastmain Resources Inc. and Toachi Mining Inc. Previously, Mr. Fazzini was employed by Dundee Capital Markets as Vice President and Senior Mining Analyst covering global Precious Metal Equities. As a ranked equity analyst, Mr. Fazzini provided investment advisory to global institutions and investment funds. Mr. Fazzini is a holder of the Chartered Financial Analyst, Chartered Accountant and Certified Public Accountant designations. Mr. Fazzini graduated from the University of Toronto's Rotman School of Management with a Bachelor of Commerce. Mr. Fazzini will work in the capacity of the Chief Financial Officer of the Resulting Issuer devoting approximately 50% of his time to such role.

Antony Radbod, *Chief Marketing Officer*

Mr. Radbod was a former marketing executive-turned-entrepreneur responsible for launching a series of successful start-ups since 2010. Strategies he crafted while overseeing operations of those companies grew aggregate revenue from $0 to over US$260M. The companies Mr. Radbod co-founded include a wide swath of the corporate and technology landscape: digital content marketing, real estate development, SaaS technologies and growth consulting for emerging markets. Acquired in 2015, his digital content agency further refined unique digital marketing strategies he developed while working with Fortune 100 brands, government agencies (foreign and domestic) and non-profits. Mr. Radbod will work in the capacity of the Chief Marketing Officer of the Resulting Issuer devoting approximately 75% of his time to such role.

14. CAPITALIZATION

Issued Capital (1)

	Number of Securities (non-diluted)	**Number of Securities (fully-diluted)**	**%of Issued (non-diluted)**	**% of Issued (fully diluted)**
Public Float				
Total outstanding (A)	29,062,223	72,285,702	100%	100%
Held by Related Persons or employees of the Issuer or Related Person of the Issuer, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer upon exercise or conversion of other securities held) (B)	5,545,000	25,456,924	19%	35%
Total Public Float (A-B)	23,517,223	46,828,778	81%	65%
Freely-Tradeable Float				
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement	21,577,310	47,421,203	74%	66%

and securities held by control block holders (C)				
Total Tradeable Float (A-C)	7,484,913	24,864,499	26%	34%

Note: (1) Assumes a Transaction Closing Date of August 31, 2019.

Public Securityholders (Registered)

Class of Security

Size of Holding	**Number of holders**	**Total number of securities**
1 – 99 securities	30	542
100 – 499 securities	6	1,821
500 – 999 securities	1	881
1,000 – 1,999 securities	5	6,451
2,000 – 2,999 securities	Nil	Nil
3,000 – 3,999 securities	Nil	Nil
4,000 – 4,999 securities	Nil	Nil
5,000 or more securities	67	22,575,997

Public Securityholders (Beneficial)

Class of Security

Size of Holding	**Number of holders**	**Total number of securities**
1 – 99 securities	368	7,404
100 – 499 securities	48	11,699
500 – 999 securities	25	17,826
1,000 – 1,999 securities	17	27,958
2,000 – 2,999 securities	4	10,171
3,000 – 3,999 securities	7	23,470
4,000 – 4,999 securities	3	14,222

5,000 or more securities	61	5,085,291
Unable to confirm		1,278,490

Non-Public Securityholders (Registered)

Class of Security

Size of Holding	**Number of holders**	**Total number of securities**
1 – 99 securities	Nil	Nil
100 – 499 securities	Nil	Nil
500 – 999 securities	Nil	Nil
1,000 – 1,999 securities	Nil	Nil
2,000 – 2,999 securities	Nil	Nil
3,000 – 3,999 securities	Nil	Nil
4,000 – 4,999 securities	Nil	Nil
5,000 or more securities	Nil	Nil

14.2 **Convertible/Exchangeable Securities**

To the best knowledge of the Resulting Issuer, the following table sets out the number of convertible securities of the Resulting Issuer as of the date of this Listing Statement:

Designation of Securities	Number of Underlying Resulting Issuer Common Shares (1)	Percentage (Fully Diluted)
Resulting Issuer Proportionate Voting Shares (2)	18,478.660	25.6%
Total Resulting Issuer Proportionate Voting Shares Convertible into Resulting Issuer Common Shares	**18,478,660**	**25.6%**
Sub Receipts and Sub Receipt Debentures (3)	5,614,544	7.8%
Xtraction Warrants		
Resulting Issuer Sub Receipt Warrants	5,614,544	7.8%
Shares issuable upon exercise of Sub Receipt Broker Warrants	374,308	0.5%
Warrants issuable upon exercise of Sub Receipt Broker Warrants	374,308	0.5%
May Warrant	691,250	1.0%
May Broker Warrant	149,000	0.2%
Warrants issuable upon conversion of September Debentures	5,438,471	7.5%

September Broker Warrant	241,527	0.3%
Other Xtraction Warrants [4]	1,145,053	1.6%
Xtraction Options		
Xtraction Options	2,512,652	3.5%
Total Xtraction Convertible Securities	**40,634,317**	**56.2%**
Caracara Warrants	2,589,162	3.6%
Total Caracara Convertible Securities	**2,589,162**	**3.6%**
Total Convertible Securities	**43,223,479**	**59.8%**

Notes:
(1) Assumes a Transaction Closing Date of August 31, 2019.
(2) Convertible into Resulting Issuer Common Shares at a ratio of 1,000 Resulting Issuer Common Shares per Proportionate Voting Share.
(3) Excludes Resulting Issuer Sub Receipt Warrants shown separately below.
(4) Includes April 2019 Warrants, 2018 Service Provider Warrants, 2019 Service Provider Warrants, 400,000 Sub Receipt Broker Warrants and warrants issuable prior to the Transaction Closing Date.

15. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth all compensation earned, for the financial year ended December 31, 2018, by the following individuals (each, a "**Named Executive Officer**" or "**NEO**") in connection with their employment with Xtraction: (i) David Kivitz, the proposed Chief Executive Officer of the Resulting Issuer; (ii) Joseph Fazzini, the proposed Chief Financial Officer and Corporate Secretary of the Resulting Issuer; and (iii) the three most highly compensated individuals of the Resulting Issuer whose total compensation was, individually, more than $150,000 for the financial year ended December 31, 2018. All amounts presented in United States Dollars.

Name and Principal Position	Year	Salary and Fees ($)	Option-based Awards ($)	Non-Equity Incentive Plan Compensation ($)		All Other Compensation ($)	Total Compensation ($)
				Annual Incentive Plans	Long-Term Incentive Plans		
David Kivitz, Chief Executive Officer	2018	$134,400	$10,199	Nil	Nil	$9,208	$153,807
Joseph Fazzini, Chief Financial Officer & Corporate Secretary[(1)]	2018	Nil	Nil	Nil	Nil	Nil	Nil
Antony Radbod, Chief Marketing Officer	2018	$100,939	$6,800	Nil	Nil	$9,264	$117,003

(1) Mr. Fazzini was appointed in May 2019 and thus, received no compensation in 2018

Incentive Option-Based Awards for Executive Officers

The following table sets forth for each Named Executive Officer, all awards outstanding at the end of the year ended December 31, 2018:

Name and Principal Position	Option-based Awards			
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price ($)	Option Expiration Date	Value of Unexercised in-the-money Options ($)
David Kivitz, Chief Executive Officer	150,000	$0.60	July 19, 2028	Nil
Antony Radbod, Chief Marketing Officer	100,000	$0.60	July 19, 2028	Nil

Incentive Plan Awards – Value Vested or Earned during Fiscal 2018

The following table sets forth for each Name Executive Officer, the value of option-based awards and share-based awards which vested during the year ended December 31, 2018 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2018:

Name and Principal Position	Option-based awards – Value vested during the year ($)	Share-based awards – Value vested during the year ($)	Non-equity incentive plan compensation – Value earned during the year ($)
David Kivitz, Chief Executive Officer	Nil	Nil	Nil
Antony Radbod, Chief Marketing Officer	Nil	Nil	Nil

Incentive Plan Awards – Retirement and Pension Benefit Plans

Caracara does not and the Resulting Issuer does not intend to provide retirement or pension benefits for directors or executive officers.

Employment, Termination and Change of Control Benefits

David Kivitz (Chief Executive Officer of Xtraction) and Antony Radbod (Chief Marketing Officer of Xtraction) render their services to Xtraction through an amended and restated master services agreement entered into between Xtraction and Archytas dated March 20, 2019 as amended on June 18, 2019 and effective January 1, 2019 (the "**First Amendment**") and Joseph Fazzini (Chief Financial Officer and Corporate Secretary of Xtraction) renders his services to Xtraction under a consulting agreement. These executive officers of Xtraction are expected to be the NEOs of the Resulting Issuer. Details regarding the compensation anticipated to be paid to the NEOs under such agreements are set out below.

David Kivitz, Chief Executive Officer

The First Amendment MSA, among other things, provides for payment by Xtraction to Archytas for work completed. In addition, the First Amendment MSA entitles Mr. Kivitz to participate in Xtraction's benefit plans and programs including but not limited to its life and disability insurance program, health, medical, dental and vision plans and pension plans. Pursuant to the First Amendment MSA, the employment agreement entered into between Mr. Kivitz and Xtraction on August 1, 2018 (the "**Kivitz Employment Agreement**") terminated as of January 1, 2019. The initial grant of options to purchase 100,000 of Xtraction's Class B Non-Voting Common Stock awarded to Mr. Kivitz under the Kivitz Employment Agreement was subsequently assigned to Archytas pursuant to the First Amendment MSA. The term of First Amendment MSA shall remain in effect for an initial term of five years and shall be extended automatically for successive one-year periods unless terminated pursuant to the agreement. Involuntary termination of the First Amendment Agreement can only occur once Archytas' ownership represents less than 5% of the fully diluted shares of Xtraction.

In consideration for the services provided and per the terms of the First Amendment MSA, Xtraction has agreed to pay fees to Archytas of US$28,666.76 per month. This fee is inclusive of the services provided by both Mr. Kivitz and Mr. Radbod. In the event that the Archytas performs services which result in the acquisition or merger of another entity, Archytas shall be entitled to an acquisition success premium equivalent to 2% of the acquisition or merger partner enterprise value, net of any third party broker fees. In the event that the Archytas performs services which result in a change of control or other material transaction, Archytas shall be entitled to an exit success premium equivalent to 2% of the enterprise valuation on exit, net of any third party broker fees.

In the event of a termination of the First Amendment MSA as a result of a change of control, Archytas is entitled to payment equal to 24 months of the base fee of US$28,666.76 per month.

Joseph Fazzini, Chief Financial Officer and Corporate Secretary

Xtraction entered into a consulting agreement dated June 30, 2019 (the "**Atlas Consulting Agreement**") providing for Mr. Fazzini's services as Chief Financial Officer of the Corporation, which provides that the Corporation is to pay a consulting fee of C$150,000 per year payable in equal monthly installments, subject to annual review by the Board, and provides that Atlas Advisory Inc. ("**Atlas**") is eligible for discretionary bonuses. In addition, the Corporation agrees to reimburse Atlas for reasonable out-of-pocket expenses incurred from time to time. The Atlas Consulting Agreement may be terminated (i) by the Corporation for cause or material breach by the consultant; (ii) by the Corporation or Atlas without cause, with 60 days' notice; or (iii) due to material breach by Xtraction. In the event of material breach by Xtraction, Xtraction will pay to Atlas an amount equal to 6 months' base fees. If the Atlas Consulting Agreement is terminated at any time within 12 months of the date of a Change of Control of Xtraction (excluding the Transaction) will pay to Atlas an amount equal to 6 months' base fees. The Atlas Consulting Agreement shall remain in effect for 6 months and shall be extended automatically for successive 6 month periods unless terminated pursuant to the agreement.

Antony Radbod, Chief Marketing Officer

The First Amendment MSA, among other things, provides for payment by Xtraction to Archytas for work completed. In addition, the First Amendment MSA entitles Radbod to participate in Xtraction's benefit plans and programs including but not limited to its life and disability insurance program, health, medical, dental and vision plans and pension plans. Pursuant to the First Amendment MSA, the employment agreement entered into between Mr. Radbod and Xtraction on August 1, 2018 (the "Radbod Employment Agreement") terminated as of January 1, 2019. The initial grant of options to purchase 100,000 of Xtraction's Class B Non-Voting Common Stock awarded to Mr. Radbod under the Radbod Employment Agreement was subsequently assigned to Archytas pursuant to the First Amendment MSA.

In consideration for the services provided and per the terms of the First Amendment MSA, Xtraction agrees to pay fees to Archytas of US$28,666.76 per month. This fee is inclusive of the services provided by both Mr. Kivitz and Mr. Radbod. In the event that the Archytas performs services which result in the acquisition or merger of another entity, Archytas shall be entitled to an acquisition success premium equivalent to 2% of the acquisition or merger partner enterprise value, net of any third party broker fees. In the event that the Archytas performs services which result in a change of control or other material transaction, Archytas shall be entitled to an exit success premium equivalent to 2% of the enterprise valuation on exit, net of any third party broker fees.

The term of First Amendment MSA shall remain in effect for an initial term of five years and shall be extended automatically for successive one-year periods unless terminated pursuant to the agreement. Involuntary termination of the First Amendment Agreement can only occur once Archytas' ownership represents less than 5% of the fully diluted shares of Xtraction.

In the event of a termination of the First Amendment MSA as a result of a change of control, Archytas is entitled to payment equal to 24 months of the base fee of US$28,666.76 per month.

16. INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Upon completion of the Transaction, none of the directors or officers of the Resulting Issuer, nor any of their Associates, will be indebted to the Resulting Issuer, and neither will any indebtedness of any of these individuals or Associates to another entity be the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Resulting Issuer.

17. RISK FACTORS

Credit Risks May Lead to Unexpected Losses

The Resulting Issuer's net receivables exposes the Resulting Issuer to credit risk. Credit risk is the risk that the Resulting Issuer will incur an unexpected loss because its customers and counterparties fail to discharge their contractual obligations. Credit risk arises principally through the Resulting Issuer's net receivables that are a result of transactions within the industry and, as such, contain an element of credit risk in the event that obligors are unable to meet the terms of their agreements. The Resulting Issuer is exposed to credit risk as it arises from events and circumstances outside of the Resulting Issuer's control relating to adverse economic conditions, business failure or fraud. Types of fraud to which the Resulting Issuer is exposed generally fall into one of three primary categories: (i) vendor/dealer fraud; (ii) customer fraud; and (iii) employee fraud. Excessive credit losses could adversely affect the Resulting Issuer's ability to generate and fund new deals.

Concentration of Agreements to Small and Mid-Sized Companies May Carry More Inherent Risks

The Resulting Issuer's portfolio includes agreements with small and medium-sized, privately-owned companies, most of which do not publicly report their financial condition. Compared to larger, publicly-traded firms, agreements with these types of companies may carry more inherent risk. The companies that the Resulting Issuer transacts with generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Additionally, because most of the Resulting Issuer's customers do not publicly report their financial condition, the Resulting Issuer is more susceptible to a customer's fraud, which could cause the Resulting Issuer to suffer losses on its portfolio. The failure of a customer to accurately report its financial position could result in the Resulting Issuer providing Equipment Leasing and Ancillary Services that do not meet its underwriting criteria, defaults in payments, the loss of some or all of the principal of a particular agreement or non-compliance with contractual obligations. Accordingly, agreements made with these types of customers involve higher risks than those made with companies that have larger businesses, greater financial resources or are otherwise able to access traditional finance sources. Numerous factors may make these types of companies more vulnerable to variations in results of operations, changes impacting their industry and changes in general market conditions.

Concentration of Agreements Within a Particular Industry or Region May Negatively Impact the Resulting Issuer's Financial Condition

The Resulting Issuer currently specializes in the cannabis industry. As a result, the Resulting Issuer's portfolio currently has and may develop other concentrations of risk exposure related to this sole industry. If this industry segment in which the Resulting Issuer has a concentration of investments experiences adverse economic or business conditions, the Resulting Issuer's delinquencies, default rate and charge-offs in those segments may increase, which may negatively impact its financial condition and results of operations.

The Resulting Issuer's Provision for Credit Losses May Prove Inadequate

The Resulting Issuer's business depends on the creditworthiness of its customers and their ability to fulfill their obligations to the Resulting Issuer. The Resulting Issuer maintains a provision for credit losses that reflects management's judgment of losses inherent in the portfolio. The Resulting Issuer periodically reviews its provision for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans, past due loan migration trends, and non-performing assets.

The Resulting Issuer's provision for credit losses may prove inadequate and the Resulting Issuer cannot assure that it will be adequate over time to cover credit losses in the Resulting Issuer's portfolio because of adverse changes in the economy or events adversely affecting specific customers, industries or markets. The Resulting Issuer reserves may not keep pace with changes in the creditworthiness of the Resulting Issuer's customers or in collateral values. If the credit quality of the Resulting Issuer's customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, or if the markets for equipment, or other collateral deteriorates significantly, any or all of which would adversely affect the adequacy of the Resulting Issuer's reserves for credit losses, it could have a material adverse effect on the Resulting Issuer's business, results of operations, and financial position.

The Collateral Securing an Equipment Lease May Not Be Sufficient

While most of the Resulting Issuer's equipment leases are secured by a lien on specified collateral of the customer, there is no assurance that the Resulting Issuer's has obtained or properly perfected its liens, or that the value of the collateral securing any particular equipment lease will protect the Resulting Issuer's from suffering a partial or complete loss if the equipment lease becomes non-performing and the Resulting Issuer's moves to foreclose on the collateral. In such event, the Resulting Issuer could suffer lease losses which could have a material adverse effect on its revenue, net income, financial condition and results of operations.

Reliance on Key Suppliers

Resulting Issuer currently relies on several key suppliers to provide it with equipment that it sells or leases to its customers. These suppliers may elect, at any time, to breach or otherwise cease to participate in supply agreements, or other relationships, on which Resulting Issuer's operations rely. Loss of its suppliers would have a material adverse effect on Resulting Issuer's business and operational results. In addition, any act, omission or occurrence which adversely effects the equipment provided by such supplier may have a commensurate impact on Resulting Issuer. While the Resulting Issuer plans on entering into agreements with additional suppliers to diversify its future offering, there can be no assurances that such relationships will be formed.

Key Officers and Employees

The Resulting Issuer's success and future will depend, to a significant degree, on the continued efforts of its directors, officers and key employees. The loss of key personnel could materially adversely affect the Resulting Issuer's business. The loss of any such personnel could harm or delay the plans of the Resulting Issuer's business either while management time is directed to finding suitable replacements (who, in any event, may not be available), or, if not, covering such vacancy until suitable replacements can be found. In either case, this may have a material adverse effect on the future of the Resulting Issuer's business.

Competition for such personnel can be intense, and the Resulting Issuer cannot provide assurance that it will be able to attract or retain highly qualified technical, sales, marketing and management personnel in the future. From time to time, share-based compensation may comprise a significant component of the Resulting Issuer's compensation for key personnel, and if the price of the Resulting Issuer Shares declines, it may be difficult to recruit and retain such individuals.

Customer Concentration

As of the date hereof, the Resulting Issuer's revenue is derived almost exclusively from services provided to a small number of customers. A loss of any such customer would have a negative impact on the Resulting Issuer's revenue. While the Resulting Issuer plans on expanding and diversifying its customer base, there can be no assurances that such goals will be achieved.

In addition, Xtraction is aware that the principal of one of its key customers, Puritix, has recently been indicted on 11 felony charges. The outcome of indictment is unknown at this time. Xtraction has been advised that if necessary, Puritix is fully prepared and able to continue operating its business without the principal in question. That said, it is possible that any or all of such charges could result in a material adverse effect on Puritix which in turn could impact its ability to meet its obligations to Xtraction.

Concentration of Voting Control

As a result of the number of voting securities of Xtraction which will be held by Archytas which is controlled by David Kivitz and Antony Radbod, Archytas will exercise approximately 23.4% of the voting power in respect of the Resulting Issuer Shares. As a result, Archytas is expected to have significant influence on the outcome of all matters submitted to the Resulting Issuer's shareholders for approval, including the election and removal of directors and any arrangement or sale of all or substantially all of the assets of the Resulting Issuer.

If the Amended MSA is terminated, Archytas will continue to have the ability to exercise the same significant voting power.

The concentrated ownership position through the Resulting Issuer Shares provides some ability to delay, defer, or prevent a change of control of the Resulting Issuer, arrangement involving the Resulting Issuer or sale of all or substantially all of the assets of the Resulting Issuer that its other shareholders support. In addition, Archytas may make long-term strategic investment decisions and take risks that may not be successful and may seriously harm the Resulting Issuer's business.

Through the Amended MSA, each of Messrs. Kivitz and Radbod are anticipated to have control over the day-to-day management and the implementation of major strategic decisions of the Resulting Issuer, subject to authorization and oversight by the Resulting Issuer Board. As board members, they will owe a fiduciary duty to the Resulting Issuer's shareholders and will be obligated to act honestly and in good faith with a view to the best interests of the Resulting Issuer. As shareholders, even controlling shareholders, Archytas will be entitled to vote their shares, and shares over which they have voting control, in their own interests, which may not always be in the interests of the Resulting Issuer or the other shareholders of the Resulting Issuer.

Foreign Private Issuer Status

The Transaction was structured so that the Resulting Issuer would be a Foreign Private Issuer as defined in Rule 405 under the *United States Securities Act of 1933*, as amended (the "**1933 Act**") and Rule 3b-4 under the Exchange Act, following the Transaction Closing Date. The term ''Foreign Private Issuer'' is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions: (i) more than 50 percent of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the United States; and (i) any one of the following: (A) the majority of the executive officers or directors are United States citizens or residents, or (B) more than 50 percent of the assets of the issuer are located in the United States, or (C) the business of the issuer is administered principally in the United States. A ''holder of record'' is defined by Rule 12g5-1 under the Exchange Act. Generally speaking, the holder identifies on the record of security holders is considered as the record holder.

In December 2016, the Securities and Exchange Commission ("**SEC**") issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, the Resulting Issuer is expected to be a ''Foreign Private Issuer'' upon completion of the Transaction. Should the SEC's guidance and interpretation change, there is a risk that the Resulting Issuer may lose its Foreign Private Issuer status.

Further, if more than 50% of the Resulting Issuer's outstanding voting securities (as determined under Rule 405 of the 1933 Act) are directly or indirectly held of record by residents of the United States, the Resulting Issuer will no longer meet the definition of a Foreign Private Issuer, which may have adverse consequences on the Resulting Issuer's ability to raise capital in private placements or Canadian prospectus offerings. In addition the loss of the Resulting Issuer's Foreign Private Issuer status may likely result in increased reporting requirements and increased audit, legal and administration costs.

Additional Financing

The Resulting Issuer will require equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. Historically, Xtraction has been successful in obtaining enough funding for operating and capital requirements. However, there can be no assurance that additional financing will be available to the Resulting Issuer when needed or on terms which are acceptable. The Resulting Issuer's inability to raise financing to fund on-going operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Resulting Issuer's business, results of operations, financial condition or prospects.

If additional funds are raised through further issuances of equity, warrants or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Resulting Issuer Shares.

Depending on the availability of traditional banking services to the Resulting Issuer, the Resulting Issuer may enter into one or more credit facilities with one or more lenders in order to finance the operations of the Resulting Issuer's business. It is anticipated that any such credit facility will contain a number of common covenants that, among other things, might restrict the ability of the Resulting Issuer to: (i) acquire or dispose of assets or businesses; (ii) incur additional indebtedness; (iii) make capital expenditures; (iv) make cash distributions; (v) create liens on assets; (vi) enter into equipment sales and/or leases, investments or acquisitions; (vii) engage in mergers or consolidations; or (viii) engage in certain transactions with affiliates, and otherwise restrict activities of the Resulting Issuer (including its ability to acquire additional investments, businesses or assets, certain changes of control and asset sale transactions) without the consent of the lenders. In addition, such a credit facility would likely require the Resulting Issuer to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. Such restrictions may limit the Resulting Issuer's ability to meet targeted returns and reduce the amount of cash available for investment. Moreover, the Resulting Issuer may incur indebtedness under credit facilities that bear interest at a variable rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable rate debt and could reduce the amount of cash available for various Resulting Issuer purposes.

Limited Operating History

Xtraction has a brief operating history. As a result, Xtraction has a limited operating history upon which to base an evaluation of its business and prospects. Xtraction's prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stage of development, such as operating losses, limited access to capital and issues relating to management of growth. In addition, due to a broad sell-off of cannabis equities late 2018 causing stocks to be well off their historic highs, the Transaction and the Subscription Receipt Financing has been delayed, causing Xtraction to manage its limited cash balances accordingly, including a reduction in payroll. Xtraction may not be successful in addressing these risks and uncertainties and its failure to do so could have a material adverse effect on its business, financial condition and operating results.

Competition

There is potential that the Resulting Issuer will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and experience than the Resulting Issuer. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition, results of operations or prospects of the Resulting Issuer.

Because of the early stage of the industry in which the Resulting Issuer operates, the Resulting Issuer expects to face additional competition from new entrants. To become and remain competitive, the Resulting Issuer will require research and development, marketing, sales and support. The Resulting Issuer may not have sufficient resources to maintain research and development, marketing, sales and support efforts on a competitive basis which could materially and adversely affect the business, financial condition, results of operations or prospects of the Resulting Issuer.

Litigation

The Resulting Issuer may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Resulting Issuer becomes involved be determined against the Resulting Issuer, such a decision could adversely affect the Resulting Issuer's ability to continue operating and the market price for the Resulting Issuer Shares. Even if the Resulting Issuer is involved in litigation and wins, litigation can redirect significant company resources.

Proceeds from a prior offering are potentially subject to forfeiture.

Xtraction was made aware in early 2019 that a portion of the funds that a stockholder of Xtraction had invested in Xtraction could be subject to forfeiture to the United States of America on account of a forfeiture judgment against the stockholder's immediate family member. The stockholder's initial investment included (i) a $50,000 capital contribution made by the stockholder to Xtraction on or about October 30, 2017, and (ii) a $950,000 loan by the stockholder to Xtraction ("**$950K Loan**") which was subsequently converted to equity of Xtraction on July 16, 2018.

Xtraction was advised in early 2019 that $650,000 ("**Forfeiture Amount**") of the funds used by the stockholder to make the $950K Loan were provided to the stockholder by a member of her immediate family who is subject to a forfeiture judgment in favor of the United States of America (the "**Forfeiture Matter**"). As a result of the forfeiture judgment, the Forfeiture Amount could be subject to forfeiture. While Xtraction was not aware of this issue prior to receiving the stockholder's initial investment in Xtraction, Xtraction's legal counsel has advised that the U.S. government may seek the return of the Forfeiture Amount from Xtraction, together with interest and penalties. Xtraction intends to comply with all requests made by the relevant authorities.

In order to mitigate any potential action by the U.S. government, $650,000 in cash belonging to the stockholder is currently being held in a separate bank account controlled by Archytas in order to repay the Forfeiture Amount on behalf of the stockholder. In the event that Xtraction is required to make any payment or incurs any related expense or liability in excess of the Forfeiture Amount, Xtraction will seek to recover any such amounts from the stockholder.

If Xtraction is required to pay any amounts in connection with this matter that are not recovered from the stockholder, it may have a material adverse effect on Xtraction's working capital position, ability to operate its business and business prospects.

Intellectual Property Risks

The Resulting Issuer may have certain proprietary intellectual property, including but not limited to brands, trademarks, trade names, patents and proprietary processes including its Proprietary Products. The Resulting Issuer will rely on this intellectual property, know-how and other proprietary information, and require employees, consultants and suppliers to sign confidentiality agreements. However, these confidentiality agreements may be breached, and the Resulting Issuer may not have adequate remedies for such breaches. Third parties may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology. Third parties may otherwise gain access to the Resulting Issuer's proprietary information and adopt it in a competitive manner. Any loss of intellectual property protection may have a material adverse effect on the Resulting Issuer's business, results of operations or prospects.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Resulting Issuer. As a result, the Resulting Issuer's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Resulting Issuer can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level. While many states do offer the ability to protect trademarks independent of the federal government, patent protection is wholly unavailable on a state level, and state-registered trademarks provide lower degree of protection than would federally-registered marks.

Equipment Failures and Performance

Xtraction relies on third party manufacturers for its Equipment Leasing. From time to time, such equipment may not perform to specifications or to Xtraction's customers satisfaction. Such equipment deficiencies may lead to down time impacting Xtraction's revenue. Further, frequent downtime at customers' sites due to equipment failures may result in such customers generating less revenue increasing credit default risk. In addition, these failures may also result in additional time spent by Xtraction personnel decreasing profit margins on certain Ancillary Services agreements.

Risk Factors specifically related to the United States Regulatory System

Xtraction operates in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

Xtraction's business and that of its customers incurs ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of Xtraction and, therefore, on Xtraction's prospective returns. Further, Xtraction or its customers may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of Xtraction and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce Xtraction's earnings and could make future capital investments or Xtraction's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

33 of the states in the U.S. have enacted comprehensive legislation to regulate the sale and use of medical cannabis. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the CSA. As such, cannabis-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis will neither absolve Xtraction of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against Xtraction. Any such proceedings brought against Xtraction may adversely affect Xtraction's operations and financial performance.

Because of the conflicting views between state legislatures and the federal government of the U.S. regarding cannabis, cannabis-related operations and investments in cannabis businesses in the U.S. are subject to inconsistent legislation, regulation, and enforcement. Unless and until the U.S. Congress amends the CSA with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect Xtraction's operations in the U.S. along with any future investments of Xtraction in the U.S. As a result of the tension between state and federal law, there are a number of risks associated with Xtraction's operations and potential future business operations in the U.S.

For the reasons set forth above, Xtraction's existing interests in the U.S. cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, CDS Clearing and Depository Services Inc. ("**CDS**"), refuse to settle trades for cannabis issuers that have cannabis-related operations and/or investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators ("**CSA**") and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**TMX MOU**") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Resulting Issuer Common Shares to make and settle trades. In particular, the Resulting Issuer Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Resulting Issuer Common Shares through the facilities of a stock exchange.

Xtraction's activities and operations in the U.S. are, and will continue to be, subject to evolving regulation by governmental authorities. Xtraction will be directly engaged in the medical and recreational cannabis industry in the California, where local state law permits such activities. Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis. However, the U.S. federal government has not enacted similar legislation. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains illegal under U.S. federal law.

Further, on January 4, 2018, U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice federal policy guidance governing enforcement of marijuana laws, as set forth in a series of memos and guidance from 2009-2014, principally the Cole Memorandum. The Cole Memorandum generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of this memo and other Obama-era prosecutorial guidance did not create a change in federal law as the Cole Memorandums were never legally binding; however, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority. The federal government of the United

States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

Additionally, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, Xtraction's current and future operations along with any future investments in such businesses would be materially and adversely affected. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect Xtraction and its business.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the CSA published a Staff Notice 51-352 setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. Xtraction views this staff notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as Xtraction's ability to pursue future investment and opportunities in the U.S.

The concepts of "medical cannabis" and "retail cannabis" do not exist under U.S. federal law because the CSA classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under U.S. federal law. Although Xtraction's activities are compliant with applicable U.S. state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve Xtraction of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against Xtraction. Any such proceedings brought against Xtraction may adversely affect Xtraction's operations and financial performance.

Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on Xtraction, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the U.S., the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for Xtraction to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

There is still uncertainty surrounding the Donald Trump Administration and its influence and policies towards the cannabis industry as a whole. Former U.S. Attorney General Jeff Sessions resigned on November 7, 2018 and was replaced by Matthew Whitaker as interim Attorney General. On February 14, 2019, William Barr was sworn in as Attorney General. It is unclear what position the new Attorney General will take on the enforcement of federal laws with regard to the U.S. cannabis industry.

Many factors could cause Xtraction's actual results, performances and achievements to differ materially from those expressed or implied by the forward-looking statements, including without limitation, the following factors:

- the activities of Xtraction are subject to evolving regulation that is subject to changes by governmental authorities in Canada, the U.S. and internationally and such authorities could impose restrictions on Xtraction's ability to operate;
- third parties with which Xtraction does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of Xtraction's cannabis business activities;
- Xtraction's ability to repatriate returns generated from operations and investments in the U.S. may be limited by anti-money laundering laws;
- federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and Xtraction may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze Xtraction's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company will be able to maintain its existing accounts or obtain new accounts in the future; and
- although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

Xtraction is subject to applicable anti-money laundering laws and regulations.

Xtraction is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign 125 Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States, Canada and internationally. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a chequing account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

Despite these laws, the FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to and incorporates supplementary Cole Memorandum guidance issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA on the same day.

Notwithstanding former Attorney General Sessions' revocation of the Cole Memorandum, the status of the FinCEN Memorandum has not been affected, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memorandum. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

Xtraction's operations, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains illegal federally in the United States. This may restrict the ability of Xtraction to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while Xtraction has no current intention to declare or pay dividends on its shares in the foreseeable future, Xtraction may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

U.S. Federal trademark protection may not be available for the intellectual property of Xtraction due to the current classification of cannabis as a Schedule I controlled substance.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Resulting Issuer. As a result, the Resulting Issuer's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Resulting Issuer can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level. While many states do offer the ability to protect trademarks independent of the federal government, patent protection is wholly unavailable on a state level, and state-registered trademarks provide lower degree of protection than would federally-registered marks.

Ability to Access Private and Public Capital

Xtraction has historically relied on access to private capital in order to support its continuing operations and Xtraction expects to continue to rely almost exclusively on the capital markets to finance its business in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and is not legal pursuant to U.S. federal law, Canadian based issuers involved in the U.S. cannabis industry have been successful in completing public financings. However, although Xtraction has accessed private capital in the past and will be accessing the Canadian public market with the Offering, there is no assurance Xtraction will be successful, in whole or in part, in raising funds in the future, particularly if the U.S. federal authorities change their position toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due their unwillingness to be associated with activities which violate U.S. federal laws.

Risk of Civil Asset Forfeiture

Because the cannabis industry remains illegal under United States federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture. As a result, the equipment that is leased by the Resulting Issuer to its customers in the United States may be subject to such seizure and forfeiture. Additionally, a broad interpretation of the law could potentially result in the seizure and forfeiture of proceeds generated by the Resulting Issuer.

Public Opinion and Perception

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. Public opinion and support for medical and adult-use marijuana has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be improving for legalizing medical and adult-use marijuana, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new state jurisdictions into which the Resulting Issuer could expand. Any inability to fully implement the Resulting Issuer's expansion strategy may have a material adverse effect on the Resulting Issuer's business, results of operations or prospects.

Enforceability of Contracts

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a federal level, judges in multiple U.S. states have on a number of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even if there is no violation of state law. There remains doubt and uncertainty that the Resulting Issuer will be able to legally enforce contracts it enters into if necessary. The Resulting Issuer cannot be assured that it will have a remedy for breach of contract, which would have a material adverse effect.

Admissibility to the U.S. Admissibility into the United States for those individuals involved with marijuana remains uncertain since the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law.

U.S. Customs practices continue to evolve and U.S. Customs and Border Protection ("CBP") released a statement on October 11, 2018 (the "**CBP Statement**") confirming that CBP enforces the laws of the United States and U.S. laws have not changed following Canada's legalization of marijuana. Requirements for international travelers wishing to enter the United States are governed by and conducted in accordance with U.S. federal law, which supersedes state laws. Although medical and recreational marijuana may be legal in some U.S. States and Canada, the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law. Consequently, crossing the border or arriving at a U.S. port of entry in violation of this law may result in denied admission, seizure, fines, and apprehension. The CBP Statement also stated that CBP officers are thoroughly trained on admissibility factors and the Immigration and Nationality Act, which broadly governs the admissibility of travelers into the United States. Determinations about admissibility and whether any regulatory or criminal enforcement is appropriate are made by a CBP officer based on the facts and circumstances known to the officer at the time. Generally, any arriving alien who is determined to be a drug abuser or addict, or who is convicted of, admits having committed, or admits committing, acts which constitute the essential elements of a violation of (or an attempt or conspiracy to violate) any law or regulation of a State, the United States, or a foreign country relating to a controlled substance, is inadmissible to the United States. The CBP Statement then continued to state that a Canadian citizen working in or facilitating the proliferation of the legal marijuana industry in Canada, coming to the U.S. for reasons unrelated to the marijuana industry will generally be admissible to the U.S. However, if a traveler is found to be coming to the U.S. for reason related to the marijuana industry, they may be deemed inadmissible.

Xtraction's operations in the United States may be subject to heightened scrutiny.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which Xtraction could expand. Any inability to fully implement Xtraction's expansion strategy may have a material adverse effect on Xtraction's business, financial condition and results of operations.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical and recreational adult use cannabis under the *Cannabis Act* (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the state level. To Xtraction's knowledge, there are to date a total of 46 states, plus the District of Columbia, that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA in the United States and as such, may be in violation of federal law in the United States.

Since 2014, the United States Congress has passed appropriations bills which included provisions to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law (currently the "**Leahy Amendment**", but also referred to as the Rohrabacher-Farr Amendment).

The Leahy Amendment was set to expire with the 2018 fiscal year on September 30, 2018 ("**2018 Fiscal Year**"), however, Congress approved a nine-week continuing resolution from the 2018 Fiscal Year (the "**Continuing Resolution**"). The Continuing Resolution has the purpose of providing ongoing and consistent protection for the medical cannabis industry until December 7, 2018. Congress has been negotiating the 2019 Fiscal Year appropriations since February 2018. The much relied upon appropriations protecting the medical cannabis industry were renewed in both the House and Senate versions of the 2019 Fiscal Year Appropriations bills, with the expectation that the language will be included in the final 2019 Fiscal Year Appropriations Bill. However, it should be noted that there is no assurance that the final 2019 Fiscal Year Appropriations Bill will include appropriations protecting the medical cannabis industry. Until Congress agrees on the 2019 Fiscal Year Appropriations Bill, Congress may pass additional continuing resolutions from the 2018 Fiscal Year, which resolutions would provide ongoing and consistent protection for the medical cannabis industry.

On December 22, 2018, Congress failed to pass the 2019 Fiscal Year Appropriations Bill, including the Leahy Amendment, causing a shutdown of the federal government. During a federal government shutdown, certain "nonessential" governmental programs are stalled; however, federal law enforcement and prosecution actions are exempted from furlough, thus Drug Enforcement Administration agents and federal prosecutors can operate without any restriction otherwise imposed by the spending bill regarding interference with the cannabis industry. Accordingly, during a shutdown, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis business that are otherwise compliant with state law.

On January 25, 2019, President Trump ended the government shutdown but announced that he may shutdown the government again on February 15, 2019 if, by that time, Congress has not agreed on the final 2019 Fiscal Year Appropriations Bill which includes sufficient funding for a border wall between the

United States and Mexico. On February 15, 2019, President Trump avoided another government shutdown and signed the 2019 Fiscal Year Appropriations Bill which included the Leahy Amendment, extending its application until the end of the 2019 fiscal year on September 30, 2019. There can be no assurances that the Leahy Amendment will be included in future appropriations bills.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. Controlled Substances Act, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in a future budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government would have the authority to prosecute individuals for violations of the law before it lacked funding under the five (5) year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provides no protection against businesses operating in compliance with a state's recreational cannabis laws.

18. PROMOTERS

Xtraction does not have any promoters.

19. LEGAL PROCEEDINGS

Other than the Forfeiture Matter, as discussed in Section 17 - *Risk* Factors of this Listing Statement, there are no actual or contemplated legal proceedings material to Xtraction or Caracara or of which any of their respective properties is the subject matter and there are no such proceedings known to Xtraction or Caracara to be contemplated.

There have been no penalties or sanctions imposed against Xtraction or Caracara by a court or regulatory authority, and neither of Xtraction or Caracara has entered into any settlement agreements before any court relating to provincial or territorial securities legislation or with any securities regulatory authority, in the three years prior to the date of this Listing Statement.

20. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this Listing Statement in Section 3.2 "Acquisitions and Dispositions" and in the *Related Party Transactions* note in Schedule "B", no director or executive officer of Xtraction or person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10 percent of any class or series of the outstanding voting securities of Xtraction, or any associate or affiliate of any of the foregoing has or had any material interest, direct or indirect, in any transaction within the three years before the date of this Listing Statement, or in any proposed transaction, which has materially affected or will materially affect Xtraction.

21. AUDITORS, TRANSFER AGENTS AND REGISTRARS

The auditors of Xtraction are Marcum LLP at its office located at 1601 Market Street, 4th Floor Philadelphia, Pennsylvania, 19103

The auditors of Caracara are Smythe LLP at its office located at 355 Burrard Street, 7th Floor, Vancouver, British Columbia, V6C 3G8.

The auditors of the Resulting Issuer will be Marcum LLP at its office located at 1601 Market Street, 4th Floor, Philadelphia, Pennsylvania, 19103.
The transfer agent and registrar of the Caracara Shares is, and the transfer agent and registrar of the Resulting Issuer Shares will be, Odyssey Trust Company, at its office located at 350 – 300 5th Ave SW Calgary, Alberta, T2P 3C4.

22. MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, the only material contract entered into within the two years before the date of this Listing Statement by either of Xtraction and Caracara is the Merger Agreement.

The Merger Agreement is described in detail in Section 3.1 of this Listing Statement and a copy of this material contract will be available for inspection without charge at the office of Wildeboer Dellelce LLP, 365 Bay Street, Suite 800, Toronto, Ontario, M5H 2V1, during ordinary business hours from the date hereof until the completion of the Transaction.

23. INTEREST OF EXPERTS

No person or corporation whose profession or business gives authority to a statement made by the person or corporation and who is named as having prepared or certified a part of this Listing Statement or as having prepared or certified a report or valuation described or included in this Listing Statement holds any beneficial interest, direct or indirect, in any securities or property of Xtraction or Caracara or of an Associate or Affiliate of Xtraction or Caracara or and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of the Resulting Issuer or of an Associate or Affiliate of the Resulting Issuer and no such person is a promoter of Xtraction or Caracara or an Associate or Affiliate of Xtraction or Caracara.

Marcum LLP is independent of Xtraction and Smythe LLP, Chartered Professional Accountants, are independent of Xtraction and Caracara in accordance with the rules of professional conduct of the Institute of Chartered Professional Accountants of Ontario.

24. OTHER MATERIAL FACTS

There are no other material facts other than as disclosed herein that are necessary to be disclosed in order for this Listing Statement to contain full, true and plain disclosure of all material facts relating to the Issuer.

25. FINANCIAL STATEMENTS

Schedule “A” and “C” contains copies of all financial statements of Caracara and Xtraction including the auditor’s reports, where applicable, prepared and filed under applicable securities legislation for the preceding three years. Schedule “E” contains the unaudited *pro forma* consolidated financial statements of the Resulting Issuer.

SCHEDULE "A"
XTRACTION FINANCIALS

(PLEASE SEE ATTACHED)

Xtraction Services Inc.

Financial Statements

December 31, 2018 and 2017

(Expressed in United States Dollars)

Xtraction Services, Inc.

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MARCUM
ACCOUNTANTS • ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Directors and Shareholders of
Xtraction Services, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Xtraction Services, In c. (the " Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive loss, statements of changes in equity and statements of cash flows for the year ended December 31, 2018 and for the period from inception (October 9, 2017) through December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the year ended December 31, 2018 and for the period from inception (October 9, 2017) through December 31, 2017, in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial statements, which describes events and conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Company ' s Management Discussion and Ana lys is , but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the financial stateme nts, our respons i bili ty is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. If, based on the work we have perfo rmed , we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial stateme nts in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material mis st atement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial report in g process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance , but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standa rds will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements .

As part of an audit in accordance with Canad ian generally accepted auditing standards, we exercis e profession al judgment and ma intain professional skeptic is m throu ghout the audi t. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures respons ive to those risks , and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may invo lve collus io n, forgery, intentional omissio ns, mis representation s, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Marcum LLP

Philadelphia, Pennsylvania
August 22, 2019

Xtraction Services Inc.
Statements of comprehensive loss
For the year ended December 31, 2018 and for the period from inception (October 9, 2017) through December 31, 2017
(Expressed in United States Dollars)

	Note	Year Ended December 31, 2018	From the period inception (October 9, 2017) through December 31, 2017
Revenue	4	$ 146,776	$ -
Cost of sales	5	1,135,833	58,933
Gross loss		(989,057)	(58,933)
Administrative expenses	5	2,813,464	164,020
Sales and marketing expenses	5	762,098	27,342
Loss from operations		(4,564,619)	(250,295)
Financing expense, net		471,113	35,481
Accretion expense		1,052,981	89,281
Change in fair value of embedded derivatives	13	(250,043)	-
Loss before income tax		(5,838,670)	(375,057)
Income tax expense	16	975	-
Loss and comprehensive loss		$ (5,839,645)	$ (375,057)
Loss per share / unit - basic and diluted [1]		$ (0.21)	$ (0.02)
Weighted average shares / equity interest outstanding:			
Basic and diluted (post split)		28,385,149	18,674,699

Note to table:
1) In July 2018 the Company changed its status from a limited liability company to a corporation (note 1).

The accompanying notes are an integral part of these financial statements.

Xtraction Services Inc.

Statements of financial position
As of December 31, 2018 and 2017
(Expressed in United States Dollars)

	Note	December 31, 2018	2017
Assets			
Non-current assets			
Servicing equipment	6	$ 2,479,196	$ 554,287
Prepaid servicing equipment	6	2,770,397	724,000
Property, plant and equipment	7	65,678	-
Intangible asset	8	599,900	753,066
Total non-current assets		5,915,171	2,031,353
Current assets			
Inventories	10	96,166	8,641
Prepaid and other current assets	9	109,961	3,500
Trade and other receivables	11	36,421	600,000
Cash		534,148	848,047
Total current assets		776,696	1,460,188
Total assets		$ 6,691,867	$ 3,491,541
Shareholders' (deficit) equity and liabilities			
Capital and reserves			
Members' capital	12	$ -	$ 2,188,822
Class A common stock	12	3,183	-
Class B common stock	12	68	-
Additional paid-in capital	12	5,317,232	-
Accumulated deficit		(6,214,702)	(375,057)
Total (deficit) equity		(894,219)	1,813,765
Non-current liabilities			
Loans and borrowings, long-term	13	4,216,627	1,266,299
Embedded derivative liabilities	13	1,091,514	-
Total non-current liabilities		5,308,141	1,266,299
Current liabilities			
Loans and borrowings, short-term	13	7,658	-
Trade and other payables	14	210,267	204,725
Accrued expenses	15	219,418	9,790
Unearned revenue	4	1,021,917	-
Amounts due to related parties	18	118,654	196,962
Warrant derivative liabilities	12	50,031	-
Redeemable common stock	13	650,000	-
Total current liabilities		2,277,945	411,477
Total liabilities		7,586,086	1,677,776
Total shareholders' (deficit) equity and liabilities		$ 6,691,867	$ 3,491,541

The accompanying notes are an integral part of these financial statements.

Xtraction Services Inc.
Statements of changes in equity
For the year ended December 31, 2018 and from the period inception (October 9, 2017) through December 31, 2017
(Expressed in United States Dollars)

	Note	Class A member units	Class B member units	Members' Capital	Series A Common Stock Shares	Series A Common Stock Amount	Series B Common Stock Shares	Series B Common Stock Amount	Additional paid-in capital	Accumulated deficit	Total
Balance at inception (October 9, 2017)		-	-	$ -	-	$ -	-	$ -	$ -	$ -	$ -
Member contributions of cash [(1)]	12	25,000,000	-	100,010	-	-	-	-	-	-	100,010
Member contribution of intangible asset	8	-	-	765,830	-	-	-	-	-	-	765,830
Fair value allocation of loan borrowing proceeds	13	-	-	1,322,982	-	-	-	-	-	-	1,322,982
Net loss		-	-	-	-	-	-	-	-	(375,057)	(375,057)
Balance at December 31, 2017		25,000,000	-	$ 2,188,822	-	$ -	-	$ -	$ -	$ (375,057)	$ 1,813,765
Fair value allocation of loan borrowing proceeds	13	-	-	1,410,526	-	-	-	-	302,817	-	1,713,343
Exchange of Class A member units to Class A common stock	12	(25,000,000)	-	(3,599,348)	25,000,000	2,500	-	-	3,596,848	-	-
Conversion of convertible debentures to Class A common stock	13	-	-	-	6,737,588	674	-	-	478,459	-	479,133
Issuance of Class A common stock	12	-	-	-	85,000	9	-	-	50,991	-	51,000
Issuance of Class B restricted units and common stock	12	-	1,098,586	-	-	-	678,650	68	407,122	-	407,190
Cancellation of Class B restricted units	12	-	(1,098,586)	-	-	-	-	-	-	-	-
Issuance of warrants to third party providers	12	-	-	-	-	-	-	-	13,413	-	13,413
Incentive compensation	17	-	-	-	-	-	-	-	467,582	-	467,582
Net loss		-	-	-	-	-	-	-	-	(5,839,645)	(5,839,645)
Balance at December 31, 2018		-	-	$ -	31,822,588	$ 3,183	678,650	$ 68	$ 5,317,232	$ (6,214,702)	$ (894,219)

Note to table:

1) In March 2018 the Company had a 25 for 1 unit split (note 12)

The accompanying notes are an integral part of these financial statements.

Xtraction Services Inc.
Statements of cash flows
For the year ended December 31, 2018 and for the period from inception (October 9, 2017) through December 31, 2017
(Expressed in United States Dollars)

	Note	Year Ended December 31, 2018	From the period inception (October 9, 2017) through December 31, 2017
Cash flows from operating activities			
Loss for the period		$ (5,839,645)	$ (375,057)
Adjustments to reconcile loss to net cash flows:			
Depreciation and amortization	6,7,8	403,550	26,283
Gain on sale of servicing equipment	4	(68,249)	-
Impaiment loss	6	100,783	-
Incentive compensation expense	12,17	874,772	-
Warrants issued for services	12	13,413	-
Finance and accretion expense	13	1,137,978	89,281
Change in fair value of embedded derivative liabilities	13	(250,043)	-
		(3,627,441)	(259,493)
Adjustments to operating assets and liabilities:			
(Increase) in trade and other receivables	11	(36,421)	-
(Increase) in inventories	10	(87,525)	(8,641)
(Increase) in prepaid and other current assets	9	(106,461)	(3,500)
Increase in trade and other payables	14	185,542	24,725
Increase in accrued expenses	15	209,628	9,790
Increase in unearned revenue	4	20,000	-
(Decrease) Increase in amounts due to related parties	18	(106,332)	129,156
Net cash flows used in operating activities		(3,549,010)	(107,963)
Cash flows from investing activities			
Proceeds for the sale of servicing equipment	4	1,070,166	-
Purchases of property, plant and equipment	7	(72,316)	-
Purchases of servicing equipment	6	(3,867,811)	(1,644,000)
Net cash flows used in investing activities		(2,869,961)	(1,644,000)
Cash flows from financing activities			
Proceeds from member contributions	12	-	100,010
Repayment of debt	13	(3,051)	-
Proceeds from loans and borrowings	13	6,323,715	2,500,000
Payment of deferred financing costs	13	(215,592)	-
Net cash flows provided by financing activities		6,105,072	2,600,010
Net (decrease) increase in cash		(313,899)	848,047
Cash at beginning of the period		848,047	-
Cash at end of the period		$ 534,148	$ 848,047
Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 264,563	$ -
Supplemental disclosure of non-cash transactions:			
Non-cash investing and financing activities			
Purchases of servicing equipment included in trade and other payables and amounts due to related parties	14,18	$ 95,830	$ 247,806
Intangible asset contributed by member	8	-	765,830
Discount on loan borrowings proceeds	13	1,713,343	1,322,982
Debt issuance costs - warrants and common stock issued	13	101,031	-
Conversion of convertible debt to common stock	12,13	479,133	-
Conversion of convertible debt to redeemable common stock	13	650,000	-
Issuance of embedded derivative liabilities	13	1,341,557	-

The accompanying notes are an integral part of these financial statements.

(1) Background

Xtraction Services Inc. (Xtraction Services or the Company) was established as a Delaware limited liability company on October 9, 2017. The Company was initially formed by Archytas Ventures ("Archytas"). On October 26, 2017 the Company entered into a joint venture and commercial arrangements agreement with Khrysos Global, Inc. ("Khrysos"), which was subsequently amended and restated on December 7, 2017, whereby the Company was initially capitalized by Archytas and another member with a financing of $2 million ($1,900,000 of debt and $100,010 of equity) in exchange for 60% ownership interest (700,000 units) and Khrysos was granted a 40% ownership interest (300,000 units) in exchange for the Company receiving purchase and intellectual property rights (Note 8) and an exclusive right to offer for sale, purchase, sell, lease and or use any equipment designed for the cannabis industry produced by Khrysos or any of its affiliates. In July 2018, the Company filed with the Secretary of State of Delaware to change its corporate status from a Delaware limited liability company to a Delaware corporation and elected to be classified as a corporation. On July 19, 2018, the Company received a Certificate of Conversion and Certificate of Incorporation from the Secretary of State of Delaware.

The Company is in the business of providing and leasing extraction, processing, distillation and related equipment used to extract and distill oil from Cannabis and Hemp plants and it operates in one business segment in one geographic area. Its registered office is located at 930 Carter Rd. #214 / #216, Winter Garden, Florida 34787.

The accompanying financial statements have been approved by the Company's board members and are authorized for issuance as of August 22, 2019.

Basis of presentation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) as issued by the International Accounting Standards Board (IASB).

Functional and presentation currency

The financial statements of the Company are presented in U.S. dollars (USD), which is also the Company's functional currency. Amounts are rounded to the nearest whole dollar, unless otherwise stated.

Basis of measurement

The financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Use of estimates and judgement

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the management of the Company to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 3 below.

Going concern

The financial statements have been prepared on a going concern basis, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses and negative cash flows from operations since inception, and has an accumulated deficit of $6,214,702 and $375,057 as of December 31, 2018 and 2017, respectively. These conditions indicate the existence of material uncertainties that casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company anticipates incurring additional losses until such time it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements, and subsequent to December 31, 2018 has received additional financings of $1,100,000 (note 20). The financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements. These adjustments could be material.

The operations of the Company are subject to certain risks and uncertainties including, among others: uncertainty of product development; technological uncertainty; commercial acceptance of any developed products; dependence on collaborative partners; uncertainty regarding patents and proprietary rights; comprehensive government regulations; market risk; and dependence on key personnel.

(2) Significant accounting policies

Cash

The Company's cash consisted of immediately available fund balances and is maintained at recognized US banks that are insured through the FDIC. The Company maintained no cash equivalents as of December 31, 2018 and 2017.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventories are determined on a first-in-first-out (FIFO) basis. Net realizable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

Property, plant and equipment

Property plant and equipment is stated at the aggregate cost incurred to acquire and place the assets in service. Expenditures for routine maintenance and repairs are charged to expense as incurred and costs of improvements and renewals are capitalized.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method when the assets are available for use. Depreciation of property, plant and equipment is included in cost of sales in the statements of comprehensive loss. Estimated useful lives have been determined as follows:

	Estimated useful lives
Computers	3 years
Machinery and equipment	5 years
Vehicles	5 years

Servicing equipment

Servicing equipment is comprised of extraction, processing, distillation and related equipment, and is stated at the aggregate cost incurred to acquire and place the assets in service. Expenditures for routine maintenance and repairs are charged to expense as incurred and costs of improvements and renewals are capitalized.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method when the assets are available for use. Depreciation of servicing equipment is included in cost of sales in the statements of comprehensive loss. Estimated useful lives have been determined as follows:

	Estimated useful lives
Extraction equipment	7 years
Ancillary extraction equipment	10 years
Pre-processing equipment	5 years
Post-processing equipment	5 years
Distillation equipment	5 years
Analytical equipment	3 years
Vacuums	3 years

Intangible assets acquired

Intangible assets with finite useful lives that are acquired are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization of the purchase and intellectual property rights is included in cost of sales in the statements of comprehensive loss, with an estimated useful life of 5 years.

Long-lived assets

Long-lived assets, such as servicing equipment and finite intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company estimates its recoverable amount. An impairment loss is recognized to the extent the carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or cash –generating units. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

During 2018 the Company reassessed the recoverability of its intangible asset as result of the changing relationship with Khrysos (note 18), and determined that no impairment was present as a result of the assessment. Additionally during 2018 the Company incurred damage to certain servicing equipment that resulted in an impairment loss of $100,783, which is included in cost of sales within the statements of comprehensive loss for the year ended December 31, 2018 (note 6). No impairment losses were recognized from the period inception (October 9, 2017) through December 31, 2017.

Revenue recognition

The Company's revenue is derived from providing and leasing of extraction, processing, distillation and related equipment ("servicing equipment") used to extract and distill oil from Cannabis and Hemp plants. The products and services offered by the Company include: (i) the sale or lease of its equipment and processes; (ii) the provision of an on-site services; and (iii) the provision of analytical services.

The Company recognizes revenue using the following five step model to analyze revenue transactions:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

Leasing and royalty arrangements

The Company will be adopting IFRS 16, *Leases* as of January 1, 2019. The Company's arrangements constitute leases to be accounted for in accordance with *IAS 17, Leases*, and are not within the scope of *IFRS 15, Revenue from Contracts with Customers.*

Revenue from the leasing of servicing equipment is based on the type of lease entered into with each customer. Each lease is classified as either a financing lease or operating lease. If a lease meets one or more of the criteria listed below and both the collectability of the minimum lease payments is reasonably predictable and there are no material uncertainties surrounding the amount of unreimbursable costs yet to be incurred, the lease is classified as a financing lease; otherwise, it is classified as an operating lease:

- The lease transfers ownership of the asset to the customer by the end of the lease term.
- The customer has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date that the option will be exercised.
- The lease term is for the major part of the economic life of the asset even if title is not transferred.
- At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the asset.
- The asset is of such a specialized nature that only the customer can use it without major modifications.

The Company recognizes a finance lease when it transfers substantially all the risks and rewards incidental to ownership of the underlying servicing equipment to the customer. This finance lease (in-substance sale) is recognized as profit or loss as measured on acceptance, usually automatic after delivery, installation and testing. Financing is separated from the contract, computed at the customer's incremental borrowing rate for equipment. When contracts contain non-lease components such as maintenance, professional services and or other deliverables, the company separates and allocates transaction price to those individual components.

A lease that does not transfer substantially all the risks and rewards incidental to the ownership of the asset, is determined to be an operating lease. Revenue from operating leases is recognized ratably on a straight-line basis over the term of the lease agreement.

Revenue from the sale of the residual asset at the end of a lease term is recognized at the date of sale.

Revenue from royalties generated on servicing equipment leased to customers is based upon monthly equipment output, and is recognized at the greater of contract monthly minimums or actual production.

Equipment sales

Revenue from the sale of equipment is generally recognized on a gross basis with the sales price to the customer recorded as revenue and the acquisition cost of the product recorded as cost of revenue. Revenue is recognized at a point in time when the title and risk of loss are passed to the customer upon shipment or delivery. The Company's equipment vendors provide warranties to our customers on equipment sold and as such we have not estimated a warranty reserve or deferred revenue for potential warranty work.

Professional services

Revenue from professional services, performed or contracted independently, and not related to another contract is recognized over time as costs are incurred assuming probable collection and the performance obligation is met.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Cash is included in this category. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statements of comprehensive loss. Gains and losses arising from changes in fair value are presented in the statements of comprehensive loss in the year in which they arise.

b) Receivables: Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's receivables comprise trade and other receivables, and are initially recognized at the amount expected to be received, less, when material, a discount to reduce the receivables to fair value. Subsequently, receivables are measured at amortized cost using the effective interest method less a provision for impairment.

c) Financial liabilities at amortized cost: Financial liabilities at amortized cost include payables, accruals and compound financial instruments such as term loans, convertible debentures, and warrants. Financial liabilities such as payables and accruals are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Compound financial instruments are initially measured at fair value plus transaction costs directly attributable to its issue.

   The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity component such as conversion option. The equity component is initially recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

   Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

   The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments (including all fees and points paid or received that form and integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

   Interest related to the financial liability is recognized in statements of comprehensive loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

Derivative liabilities

Derivative liabilities are initially recognized at fair value on the date entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognized immediately as a component of other expense (income) in the statements of comprehensive loss.

Fair value of financial instruments

The Company categorizes its financial assets and liabilities measured and reported at fair value in the financial statements on a recurring basis based upon the level of judgments associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs used to determine the fair value of financial assets and liabilities, are as follows:

- *Level 1*: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

(Expressed in United States Dollars)

- *Level 2*: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liabilities
- *Level 3*: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity)

Each major category of financial assets and liabilities measured at fair value on a recurring basis is categorized based upon the lowest level of significant input to the valuations. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Company management assessed that cash and trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following fair value hierarchy table presents information about each major category of the Company's financial liabilities measured at fair value on a recurring basis:

	Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2018:				
Liabilities:				
Warrant derivative liabilities (note 12)	$ -	$ -	$ 50,031	$ 50,031
Embedded derivative liabilities (note 13)	-	-	1,091,514	1,091,514
	$ -	$ -	$ 1,141,545	$ 1,141,545

No financial liabilities were measured at fair value on a recurring basis as of December 31, 2017.

The warrant derivative and embedded derivative liabilities were valued at fair value using a black-scholes model while probability weighting various expected exercise prices (note 12 and 13). The estimated fair value of the warrant derivative and embedded derivative liabilities would increase or decrease if the expected volatility and conversion price was higher or lower.

The following table shows a reconciliation from inception (October 9, 2017) through December 31, 2018 for Level 3 fair values:

	Warrant derivative liabilities	Embedded derivative liabilities	Total
Balance at inception (October 9, 2017) and December 31, 2017	$ -	$ -	$ -
Warrants issued to investment advisors (note 12)	50,031	-	50,031
Series C convertible debt conversion option (note 13)	-	1,341,557	1,341,557
Net change in fair value (unrealized)	-	(250,043)	(250,043)
Balance at December 31, 2018	$ 50,031	$ 1,091,514	$ 1,141,545

Incentive compensation

The Company accounts for share-based awards in accordance with provisions of IFRS 2, Share Based Payments, under which the Company recognizes the grant-date fair value of incentive-based awards issued to employees, consultants and advisors as compensation expense on a straight-line basis over the vesting period of the award. The Company uses the Black-Scholes option pricing model to determine the grant-date fair value of restricted awards.

Leases

The Company evaluates its lease obligations to determine the proper classification and accounting treatment. Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership of the asset(s) contemplated under the lease. All other leases are classified as operating leases.

As of December 31, 2018 and 2017, the Company did not enter into any lease agreements that qualified as finance leases. All leases or rental agreements entered into by the Company were determined to be operating leases (see note 4).

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Income taxes

On July 19 2018, the Company changed its corporate status from a Delaware limited liability company to a Delaware corporation and elected to be taxed as such for federal and state income tax purposes. The Company has recognized federal and state income tax liabilities and benefits related to the operations from the date of conversion (July 19, 2018) through December 31, 2018. Prior to the date of conversion (July 19, 2018), the Company was a limited liability company treated as a partnership for federal and state income tax purposes with all income tax liabilities and/or benefits of the Company being passed through to the members. As such, no recognition of federal or state income taxes for the Company have been provided for in the pre-conversion period or in the period from inception (October 9, 2017) through December 31, 2017.

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases.

Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Loss per share / units

Basic loss per share is computed by dividing the loss by the weighted average number of shares / units outstanding during the period. Diluted loss per share is computed by dividing the loss by the weighted average number of shares / units and other dilutive units outstanding during the period. For the periods presented, the effect of the dilutive instruments on loss per share / units would be anti-dilutive, therefore, basic loss per share / units equals diluted loss per share / units. In 2018, there were potentially dilutive shares of 9,191,928 excluded from the loss per share calculation resulting from the assumed exercise of outstanding convertible debt, options and warrants are determined based on the treasury stock method.

<u>*New standards and interpretations recently adopted*</u>

IFRS 9 Financial Instruments (mandatorily effective for periods beginning on or after January 1, 2018): IFRS 9 was adopted by the Company beginning January 1, 2018, and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value as well as requiring a single impairment method to be used. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of this standard.

IFRS 15 Revenue from Contracts with Customers (mandatorily effective for periods beginning on or after January 1, 2018): IFRS 15 was adopted by the Company beginning January 1, 2018 and provides requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. Since the Company was newly formed in October 2017 and had no revenue for the period from inception (October 9, 2017) through December 31, 2017 there was no impact to previously reported financial statements upon adoption of this standard.

<u>*New standards and interpretations not yet adopted*</u>

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases (mandatorily effective for periods beginning January 1, 2019): IFRS 16 is effective for the Company beginning January 1, 2019, and requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception of certain short-term leases. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of this standard.

IFRIC 23 Uncertainty over income tax treatments (mandatorily effective for periods beginning January 1, 2019): IFRIC 23 is effective for the Company beginning January 1, 2019, and clarifies the accounting of uncertainties in income taxes. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of this standard.

(3) Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in note 2 above, the Company's management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

Depreciation and Amortization of Servicing Equipment and Intangible Assets and Estimate of Useful Lives

Depreciation and amortization of servicing equipment and its intangible asset is dependent upon estimates of useful lives. The Company estimates the useful lives of servicing equipment and its intangible asset based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets.

Long-Lived Assets and Impairment

Long-lived assets, such as servicing equipment and finite intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company estimates its recoverable amount. An impairment loss is recognized to the extent the carrying value exceeds its recoverable amount. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Incentive Compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of awards granted. In estimating fair value, management is required to make certain assumptions and estimates such as the expected term, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Derivative Liabilities

Derivative liabilities are initially recognized at fair value on the date entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognized immediately as a component of other expense (income) in the statements of comprehensive loss.

Compound Financial Instruments

Financial liabilities are initially measured at fair value plus transaction costs directly attributable to its issue.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity component such as conversion option. The equity component is initially recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

(Expressed in United States Dollars)

(4) Revenue

The following table presents a disaggregation of revenue by source and timing of revenue recognition.

		Year ended December 31, 2018		From the period inception (October 9, 2017) through December 31, 2017
Revenue source:				
Equipment sales	$	118,131	$	-
Lease or royalty sales		12,245		-
Professional services		16,400		-
	$	146,776	$	-
Timing of revenue recognition under IFRS 15 from contracts with customers:				
Products transferred at a point in time	$	118,131	$	-
Services transferred over time	$	16,400	$	-

The Company's largest source of revenue resulted from the sale of equipment to a single customer. At December 31, 2018 the Company had an unsatisfied performance obligation of $1,021,917, related to this customer deposit received on undelivered servicing equipment, which is reflected as unearned revenue in the statements of financial position. The Company has elected to adopt the practical expedient of IFRS 15 to not disclose information about remaining performance obligations where the contract has an expected duration of less than one year.

The following table presents minimum lease and royalty revenue expected to be recognized in future periods related to operating leases as of December 31, 2018.

		2019		2020
Revenue expected to be recognized on royalty contracts	$	225,000	$	150,000

The above table represents one lease royalty arrangement effective June 30, 2018 that requires a minimum monthly payment of $25,000 following product installation through June 30, 2020. The Company began earning such minimums in the second quarter of 2019. The underlying servicing equipment carries an obligation of production performance that limits estimation capability of any variable component. The royalty arrangement also grants renewal rights for two successive two year periods; each requiring a minimum monthly payment of $25,000.

Revenue concentration

All of the Company's revenue is derived from customers in the United States with three customers representing 47%, 27% and 20% of the Company's recognized revenue in the year ended December 31, 2018.

(Expressed in United States Dollars)

(5) Expenses by nature

The following tables presents an analysis of expense by nature:

	Year Ended December 31, 2018	From the period inception (October 9, 2017) through December 31, 2017
Cost of sales:		
Compensation and benefits	$ 188,683	$ -
Depreciation expense	250,384	13,519
Amortization of intangible	153,166	12,764
Equipment purchases	145,236	-
Supplies and materials	155,218	-
Maintenance and repair costs	71,267	-
Other expenses	171,879	32,650
	$ 1,135,833	$ 58,933
Administrative expenses:		
Compensation and benefits	$ 217,159	$ -
Incentive compensation	874,772	-
Contractors and outside services	560,550	59,989
Professional fees	757,356	32,229
Office rent, utilities and expenses	60,991	5,458
Travel, meals and entertainment	223,136	45,026
Other expenses	119,500	21,318
	2,813,464	$ 164,020
Sales and marketing expenses:		
Compensation and benefits	$ 250,034	$ -
Contractors and outside services	99,317	20,666
Professional fees	119,272	-
Advertising and marketing	189,695	6,676
Trade shows	68,484	-
Other expenses	35,296	-
	$ 762,098	$ 27,342

(Expressed in United States Dollars)

(6) Servicing equipment

The following table below presents the change in carrying value of the Company's servicing equipment from inception (October 9, 2017) through December 31, 2018:

	Balance at inception (October 9, 2017)	Additions	Balance at December 31, 2017	Additions	Impairment loss	Balance at December 31, 2018
Cost or valuation						
Extraction equipment	$ -	$ 567,806	$ 567,806	$ 1,478,357	$ -	$ 2,046,163
Ancillary extraction equipment	-	-	-	6,268	-	6,268
Pre-processing equipment	-	-	-	17,118	-	17,118
Post-processing equipment	-	-	-	545,303	(101,171)	444,132
Distillation equipment	-	-	-	176,698	-	176,698
Analytical equipment	-	-	-	43,661	-	43,661
Vacuums	- -		-	2,033	-	2,033
Total cost or valuation	$ -	$ 567,806	$ 567,806	$ 2,269,438	$ (101,171)	$ 2,736,073
Accumulated depreciation	-	(13,519)	$ (13,519)	(243,746)	388	$ (256,877)
Net book value	$ -	$ 554,287	$ 554,287	$ 2,025,692	$ (100,783)	$ 2,479,196

The Company reflected an impairment loss of $100,783 related to damaged equipment in the year ended December 31, 2018.

The cost of servicing equipment includes $835,605 subject to revenue generated from operating leases at December 31, 2018. No servicing equipment was subject to revenue generated from operating leases at December 31, 2017.

The carrying value of prepaid service equipment at December 31, 2018 and 2017 was $2,770,397 and $724,000, respectively.

Depreciation expense related to servicing equipment is included in cost of sales within the statements of comprehensive loss.

(7) Property, plant and equipment

The following table below presents the change in carrying value of the Company's property plant and equipment from inception (October 9, 2017) through December 31, 2018:

	Balance at inception (October 9, 2017)	Balance at December 31, 2017	Additions	Balance at December 31, 2018
Cost or valuation				
Computers	$ -	$ -	$ 11,111	$ 11,111
Machinery and equipment	-	-	3,490	3,490
Vehicles	-	-	57,715	57,715
Total cost or valuation	$ -	$ -	$ 72,316	$ 72,316
Accumulated depreciation	$ -	$ -	(6,638)	$ (6,638)
Net book value	$ -	$ -	$ 65,678	$ 65,678

Depreciation expense related to property, plant and equipment is included in cost of sales within the statements of comprehensive loss.

(Expressed in United States Dollars)

(8) Intangible asset

The following table below shows the change in carrying value of the Company's intangible asset from inception (October 9, 2017) through December 31, 2018:

	Balance at inception (October 9, 2017)	Additions	Balance at December 31, 2017	Additions	Balance at December 31, 2018
Cost or valuation					
Purchase exclusivity and intellectual property rights	$ -	$ 765,830	$ 765,830	$ -	$ 765,830
Accumulated amortization	-	(12,764)	(12,764)	(153,166)	(165,930)
Net book value	$ -	$ 753,066	$ 753,066	$ (153,166)	$ 599,900

The value of the intangible asset was determined based on the fair value of the Company's membership units on the date of the commercial arrangements agreement. Amortization expense for the purchase and intellectual property rights is included in cost of sales within the statements of comprehensive loss.

(9) Prepaids and other current assets

The following table presents prepaids and other assets:

	December 31, 2018	December 31, 2017
Prepaid insurance	$ 54,372	$ -
Prepaid consulting services	45,333	-
Security deposit	3,500	3,500
Other	6,756	-
	$ 109,961	$ 3,500

(10) Inventories

Inventories primarily consist of spare parts that the Company purchased at cost, which it intends to either sell to customers as part of the installation of extraction and distillation equipment for customers or for repair orders. The carrying value of spare parts inventory as of December 31, 2018 and 2017 was $96,166 and $8,641, respectively.

(11) Trade and other receivables

The following table presents trade and other receivables:

	December 31, 2018	December 31, 2017
Trade receivables	$ 6,421	$ -
Other receivables	30,000	600,000
	$ 36,421	$ 600,000

The $30,000 receivable due from Khrysos at December 31, 2018 consisted of reimbursments for certain marketing expenditures and was paid in March 2019.

The $600,000 note balance at December 31, 2017 due from Khrysos had an original maturity date of three months that was amended in February 2018 to September 27, 2018 and bore interest at 3% per annum. The note was provided to assist a related party (note 18 – related party receivables) equipment supplier to purchase equipment to be assembled on behalf of the Company. The note was repaid in April 2018 upon the delivery of extraction equipment to the Company.

(12) Shareholder equity

At December 31, 2018 the Company had 225,000,000 authorized and 31,822,588 issued and outstanding Class A common stock with a par value of $0.0001, and 25,000,000 authorized and 678,650 issued and outstanding Class B common stock with a par value of $0.0001. At December 31, 2017 the Company had 10,000,000 units authorized and 1,000,000 units issued and outstanding (no par value).

Share and member unit issuances

The Company was initially capitalized with a financing of $1,900,000 of debt and $100,010 of equity in exchange for 60% ownership interest (700,000 units) and Khrysos was granted a 40% ownership interest (300,000 units) in exchange for the Company receiving proprietary technical knowledge and purchase and intellectual property rights (Note 8). The term loans were initially measured at fair value resulting in a debt discount of $1,322,982 and an offset to equity. Subject to certain minimum purchase commitments, Xtraction was granted exclusivity to offer for sale, purchase, sell, lease and or use any equipment designed for the cannabis industry produced by Khrysos or any of its affiliates.

In March 2018, the Company completed a 25 for 1 unit split resulting in 250,000,000 authorized units of which 225,000,000 were designated as Class A units and 25,000,0000 were designated as Class B units. The Class B units were deemed non-voting profit interests to participate in profits in excess of agreed upon thresholds. Profit and loss and distributions priorities were allocated to extent of each members' capital contributions and pro-rata thereafter, provided that Class B members were only distributed to the extent of their profits interest.

In July 2018, the Company elected to be classified as a corporation resulting in the conversion of all authorized Class A and Class B member units to authorized Class A and Class B common stock with a par value of $0.0001. The Class A and B have the same rights except voting vs. non-voting. The outstanding Class A member units of 25,000,000 were converted into an equal number of Class A common stock. The 1,098,586 of Class B restricted units were exchanged (note 17) and the Company issued 419,936 stock options (see Note 17) and 678,650 of Class B common stock. The Class B common stock was valued based on the fair value of the Company's common stock on the date of modification at $0.60 per share resulting in non-cash compensation expense of $407,190 in the year ended December 31, 2018. The fair value of the Company's stock was based on a recent transaction approach. Additionally in conjunction with election to be treated as a corporation, Archytas and the Member exercised the conversion option of their convertible debentures (note 13) and received 6,737,588 shares of Class A common stock (see Note 13).

In September 2018, the Company issued 85,000 shares of Class A common stock valued based on the fair value of the Company's common stock on the date of grant at $0.60 per share to an investment advisor in connection with the issuance of the Series B debentures. The fair value of the Company's stock was based on a recent transaction approach. The Company recorded $51,000 as debt issuance costs within the statements of financial position, and is amortizing the costs to interest expense over the life of the Series B debentures under the effective interest rate method.

(Expressed in United States Dollars)

Warrant issuances

In connection with the Series B convertible debentures issuance (note 13) the Company issued 691,250 warrants to the investors to receive additional common shares calculated at 15% of the Series B debenture shares received, with a two year term and exercise price of $0.80 per share. The Company also issued 149,000 warrants to investment advisors with a two year term and exercise price of $0.60 per share. The 840,250 of warrants vested immediately upon their issuance. The Company has accounted for the warrants as a component of equity and a discount to debt, within the statements of financial position, and is included in the fair value allocation of loan borrowing proceeds in the statements of changes in equity. The debt discount is being amortized to interest expense over the term of the Series B debentures under the effective interest rate method.

In connection with the Series C convertible debentures issuance (note 13) the Company issued 35,294 warrants to investment advisors with a two year term and exercise price of $0.85 per share. The 35,294 warrants vested immediately upon their issuance. The Company has accounted for the warrants as a component of equity and a discount to debt, within the statements of financial position, and included the warrants in the fair value allocation of loan borrowing proceeds in the statements of changes in equity. The debt discount is being amortized to interest expense over the term of the Series C debentures under the effective interest rate method.

In November and December 2018 the Company issued 58,235 warrants to third party service providers with a two year term and exercise prices of $0.85 and exercise price equal to the greater of 85% of the subscription receipt issue price of the next qualified securities issued, as defined, or $0.85. The 58,235 warrants vested immediately upon their issuance. The Company recorded non-cash consulting and marketing expense of $13,413 for year ended December 31, 2018 within the statements of comprehensive loss.

The grant date fair value of warrant issuances in the year ended December 31, 2018 was determined using the Black-Scholes option pricing model with the following assumptions:

	Series B	Series C and service providers
Expected dividend yield	-	-
Expected volatility	90.0%	90.0%
Risk-free interest rate	2.5%	2.8%
Expected term	2 years	2 years
Exercise price	$ 0.60	$ 0.85

Warrant derivative liabilities

In connection with the Series C Debentures the Company issued 206,233 warrants to investment advisors with a two year term and exercise price equal to the greater of 85% of the subscription receipt issue price of the next qualified securities issued, as defined, or $0.85. The Company performed a black-scholes model while probability weighting various expected exercise prices, resulting in a fair value of $50,031 at issuance. The Company has accounted for the warrants as a liability and a discount to debt as deferred financing costs, within the statements of financial position. The debt discount is being amortized to interest expense over the term of the Series C debentures under the effective interest rate method. At December 31, 2018 the fair value remained unchanged at $50,031.

(Expressed in United States Dollars)

The fair value of the warrant derivative liabilities was determined using with the following assumptions as of December 31, 2018 and at issuance:

	December 31, 2018	At issuance
Expected dividend yield	-	-
Expected volatility	90.0%	90.0%
Risk-free interest rate	2.5%	2.5 - 2.8%
Expected term	1.7 - 2 years	2 years
Exercise price	$ 0.85	$ 0.51 - 0.85

The following table summarizes warrant activity for the year ended December 31, 2018:

	Number of warrants	Weighted average exercise price per share
Outstanding at December 31, 2017	-	
Granted	1,140,012	$ 0.66
Outstanding at December 31, 2018	1,140,012	$ 0.66

(Expressed in United States Dollars)

(13) Loans and borrowings

The following table presents loans and borrowings outstanding:

Description	Maturity date	Interest rate	December 31, 2018	December 31, 2017
Term loan:				
Archytas	November 7, 2020	18.0%	$ 600,000	$ 600,000
Archytas	November 7, 2019	7.0%	-	950,000
Member	November 7, 2019	7.0%	-	950,000
			600,000	2,500,000
Series B convertible debentures:				
Tranche 1	April 12, 2020	8.0%	1,100,000	-
Tranche 2	May 4, 2020	8.0%	1,300,000	-
Tranche 3	May 17, 2020	8.0%	365,000	-
			2,765,000	-
Series C convertible debentures:				
Tranche 1	September 10, 2020	10.0%	2,000,000	-
Tranche 2	September 21, 2020	10.0%	785,000	-
Tranche 3	October 17, 2020	10.0%	500,000	-
Tranche 4	December 27, 2020	10.0%	221,000	-
			3,506,000	-
Vehicle loan	July 24, 2024	6.3%	49,664	-
			6,920,664	2,500,000
Less:				
Unamortized discounts and debt issuance costs [1]			(2,696,379)	(1,233,701)
			$ 4,224,285	$ 1,266,299
Non-current			$ 4,216,627	$ 1,266,299
Current			$ 7,658	$ -

Note to the table:

1) The carrying value of terms loans, Series B and Series C debentures were adjusted using a discount rate of 50% to reflect the prevailing borrowing rates associated with debt acquired by companies with a similar credit risk profile as Xtraction Services, resulting in debt discounts with an offset to equity. The debt discount will be accreted over the life of the respective debt instruments using the effective interest method.

(Expressed in United States Dollars)

The following table below shows the change in carrying value of the Company's loans and borrowings from inception (October 9, 2017) through December 31, 2018:

	Term Loans	Series B convertible debentures	Series C convertible debentures	Vehicle loan	Debt discounts and issuance costs	Total
Balance at inception (October 9, 2017)	$ -	$ -	$ -	$ -	$ -	$ -
Borrowings	2,500,000	-	-	-	(1,322,982)	1,177,018
Accretion of debt discount	-	-	-	-	89,281	89,281
Balance at December 31, 2017	$ 2,500,000	$ -	$ -	$ -	$(1,233,701)	$ 1,266,299
Borrowings	-	2,765,000	3,506,000	52,715	(3,371,523) (2)	2,952,192
Repayments	-	-	-	(3,051)	-	(3,051)
Conversion of debt	(1,900,000) (1)	-	-	-	770,867	(1,129,133)
Amortization and accretion of debt issuance and debt discount costs	-	-	-	-	1,137,978	1,137,978
Balance at December 31, 2018	$ 600,000	$ 2,765,000	$ 3,506,000	$ 49,664	$(2,696,379)	$ 4,224,285

Note to the table:

1) The Company classified $650,000 of the amount converted as redeemable common stock and a liability within the statements of financial position.
2) Represents debt discounts of $1,713,343 for the discount on loan borrowing proceeds, $1,341,557 allocated to the embedded derivative liabilities, and $316,623 of debt issuance costs ($215,592 paid in cash and $101,031 paid in warrants and common stock).

Term loans

The $600,000 term loan is due on or after the maturity date of November 2020, and bears interest at a rate of 18% per annum, payable monthly.

The Archytas and Member $950,000 term loans had an original maturity date of November 7, 2019 and bore interest at a 7% per annum. In March 2018 the term loans were modified to convertible debentures with a maturity date of March 10, 2020 and interest rate of 8% per annum. The conversion feature allowed for an equity conversion at a conversion price of $0.282 per share at the holder's option prior to maturity unless a liquidity event, as defined, occurred at which time they would convert automatically. In July 2018, Archytas and the Member exercised the conversion feature and received a combined 6,737,588 shares of Class A common stock (note 12).

Series B and Series C convertible debentures

In April and May 2018 the Company issued $2,765,000 of Series B debentures, together with warrants to various investors. The Series B debentures mature after 2 years and bear interest at a rate of 8% per annum payable in cash in equal quarterly installments. In April 2019 the Company received majority support of the Series B holders to amend the interest payment terms of the Series B debentures. As a result all interest payments payable to the Series B debenture holders are deferred starting in October 2018, and all such interest payments shall be payable-in-kind on the maturity date. The Series B debentures convert into equity at a conversion price of $0.60 at the holders' option prior to maturity or will automatically convert prior to the completion of a liquidity event, as defined.

In September, October and December 2018, the Company issued $3,506,000 of Series C debentures. The Series C debentures mature after 2 years and bear interest at a rate of 10% per annum payable in arrears in cash at maturity or in the event the Series C debentures are converted, such accrued and unpaid interest shall be payable in shares. The Series C debentures automatically convert into 85% of the subscription receipt issue price of the next qualified securities issued, as defined or at a conversion price of $0.85 if a qualified financing event is not completed prior to a liquidity event, as defined.

(Expressed in United States Dollars)

The Company incurred debt issuance costs paid in cash of $215,592 in connection with the issuance of the Series B and Series C debentures. The debt issuance costs was recorded as a discount on the Series B and Series C debentures carrying value, and is being amortized to interest expense over the life of the Series B and Series C debentures under the effective interest rate method.

Embedded derivative liabilities

The conversion feature of the Series C debentures is considered an embedded derivative liability as the conversion price is not fixed. The Company performed a black-scholes model while probability weighting various expected conversion prices, resulting in a fair value of $1,341,557 determined at issuance. The Company has accounted for the embedded derivative liabilities as a long-term liability within the statements of financial position. At December 31, 2018 the embedded derivative liabilities were re-valued at $1,091,514 with the change in fair value of $250,043 reflected in the statements of comprehensive loss for the year ended December 31, 2018.

The fair value of the embedded derivative liabilities were determined using the following assumptions as of December 31, 2018 and at issuance:

	December 31, 2018	At issuance
Expected dividend yield	-	-
Expected volatility	90.0%	90.0%
Risk-free interest rate	2.5%	2.5%
Expected term	1.7 - 2 years	2 years
Conversion price	$ 0.85	$ 0.51 - 0.85

Redeemable common stock

In July 2018, Archytas and the Member exercised the conversion feature and received a combined 6,737,588 shares of Class A common stock (note 12). The Company classified $650,000 of the amount converted as redeemable common stock and a liability as this represents amounts subject to rescission due to an ongoing governmental investigation of the Member's finances.

(14) Trade and other payables

The following table presents trade and other payables:

	December 31, 2018	December 31, 2017
Trade payables	$ 182,155	$ 203,662
Credit card payable	28,112	1,063
	$ 210,267	$ 204,725

(Expressed in United States Dollars)

(15) Other current liabilities

The following table presents accrued expenses:

	December 31, 2018	December 31, 2017
Accrued interest	$ 147,059	$ 9,790
Accrued compensation, benefits and related taxes	18,988	-
Accrued insurance	41,071	-
Accrued other	12,300	-
	$ 219,418	$ 9,790

(16) Income taxes

Income tax expense

	Year Ended December 31, 2018	From the period inception (October 9, 2017) through December 31, 2017
Current tax:		
Current tax on profits for the year	$ 975	$ -
Income tax expense	$ 975	$ -

Reconciliation of income tax to prima facie tax payable

The difference between the income tax expense for the year and the expected income taxes based on the statutory tax rate applied to the loss before income taxes arises as follows:

(Expressed in United States Dollars)

	Year Ended December 31, 2018	From the period inception (October 9, 2017) through December 31, 2017
Financial statement loss before taxes	$ (5,838,670)	$ (375,057)
Tax rate applicable to U.S. earnings	21%	0%
Tax benefit of U.S. loss	(1,226,121)	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Meals and entertainment expenses	5,235	-
Amortization expense	29,414	-
Incentive compensation expense	190,648	-
Other sundry items	1,890	-
Fair value OID accretion on debt discounts	221,126	-
Fair value adjustment on embedded derivative	(52,509)	-
Tax depreciation in excess of book depreciation	(19,730)	-
State income taxes	(321,951)	-
Subtotal	(1,171,998)	-
Tax effect of true-up related to prior nondeductible (taxable) items at beginning of year	201,518	-
Tax effect loss and nondeductible (taxable) items allocated to pre-conversion period in 2018	304,911	-
Tax effect of unrecognized tax assets incurred in post-conversion period	666,544	-
Income tax expense	$ 975	$ -

The effective federal and state corporate tax rates are 21% and 6%, respectively.

Unrecognized deferred income taxes

The nature of deferred tax assets that have not been recognized because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom is summarized as follows:

	December 31, 2018	December 31, 2017
Taxable temporary differences, net of deductible temporary differences	$ (418,820)	$ -
Tax losses	2,931,489	-
Gross unused tax losses net of taxable temporary differences for which no deferred tax asset has been recognized	2,512,669	-
Future potential effective tax rate	27%	-
Net unrecognized deferred tax asset	$ 666,544	$ -

Unrecognized deferred tax assets related to unused U.S. net operating losses and other temporary difference were not recognized, as the recoverability is not considered to be probable. These losses may be deducted in the calculation of taxable income in future years. Included in the total net operating losses are federal and certain state losses which can be carried forward indefinitely. The remainder of the state losses will expire in year 2038.

(Expressed in United States Dollars)

(17) Incentive compensation

In March, April and May 2018 the Company issued 1,098,586 of Class B restricted units to employees, consultants and advisors of the Company. 797,872 units vested ratably on the grant-date anniversary over a four-year period, 217,172 units vested ratably on the grant-date anniversary over a three-year period and 83,542 units vested immediately on the grant-date.

In July 2018 in connection with the Company electing to be classified as a corporation, the Company adopted the 2018 Stock Option Plan ("Option Plan") to provide for the granting of up to 5,000,000 share-based equity incentive compensation awards such as stock options and restricted stock awards to employees, contractors, and advisors, as determined by the Company's board of directors. The Company cancelled all of the 1,098,586 restricted units and issued 419,936 of stock options, and 678,650 of fully vested series B common stock to the same individuals (note 12). The Company accounted for this as a modification. The Company also subsequently awarded 3,297,957 options in July 2018 to employees, consultants and advisors of the Company. All stock options have an exercise price of $0.60 and vest over three years. In August 2018 150,000 of the issued options were forfeited as result of the resignation of a certain executive of the Company.

The per-share weighted average fair value of the restricted units (profits interest) and stock options granted was estimated at $0.23 on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	-
Expected volatility	90.0%
Risk-free interest rate	2.8%
Expected term	6 years

The expected volatility was calculated based on a historical volatility analysis of public company peers that were similar to the Company for a term equivalent to the expected life of the option. The expected term was determined based on management's expectation. The risk-free interest rate is based on the U.S. Treasury yield in effect at the date of grant.

The following table summarizes stock option activity under the Option Plan:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at December 31, 2017	-		
Granted	3,717,893	$ 0.60	
Cancelled / forfeited	(150,000)	0.60	
Outstanding at December 31, 2018	3,567,893	$ 0.60	9.5

As of December 31, 2018, there was approximately $875,000 of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 2.5 years.

The Company recorded compensation expense for restricted stock awards and stock options, including non-cash compensation related to cancelled restricted units, of $874,772 for the year ended December 31, 2018.

(Expressed in United States Dollars)

(18) Related party transactions

The following presents balances and transactions between the Company and other related parties as of December 31, 2018 and 2017, respectively, and for the year ended December 31, 2018 and the period from inception (October 9, 2017) through December 31, 2017, respectively.

Key management personnel

Key employees include executive management with the authority and responsibility for planning, directing and controlling the activities of the Company. The following table presents compensation and benefit expenses of key employees:

	Year ended December 31, 2018
Salaries, guaranteed payments, benefits	$ 433,444
Incentive compensation	75,307
	$ 508,751

No expenses were incurred for key management personnel from the period of inception (October 9, 2017) through December 31, 2017.

Related party other and notes receivable

	December 31, 2018	December 31, 2017
Other receivable - Khrysos (note 11)	$ 30,000	$ 600,000

Related party transactions and amounts due to related parties

The following table presents expenses incurred on behalf of the Company and assets purchased from related parties:

	Archytas	Khrysos	Total
Amounts due to related parties at inception (October 9, 2017)	$ -	$ -	$ -
Interest expense	25,691	-	25,691
Operating expenses	78,344	16,479	94,823
Inventory purchases	-	8,641	8,641
Prepaid servicing equipment purchases	-	791,807	791,807
Less payments to related parties	-	(724,000)	(724,000)
Amounts due to related parties at December 31, 2017	$ 104,035	$ 92,927	$ 196,962
Interest expense	137,231	-	137,231
Operating expenses	22,915	35,575	58,490
Inventory purchases	-	291,667	291,667
Prepaid servicing equipment purchases	-	3,259,964	3,259,964
Less payments to related parties	(251,181)	(3,574,479)	(3,825,660)
Amounts due to related parties at December 31, 2018	$ 13,000	$ 105,654	$ 118,654

The owner and chief executive of Khrysos acted as the Company's chief technology officer and was paid consulting fees of $51,923 for the year ended December 31, 2018. In January 2019, the owner and chief executive of Khrysos resigned from his position as the Company's chief technology officer to refocus his efforts on Khrysos activities (note 19).

(Expressed in United States Dollars)

Related party loans and borrowings

The following table presents the Company's loans and borrowings, and related interest, from related parties:

	December 31, 2018	December 31, 2017
Archytas:		
Term loan (note 13)	$ 600,000	$ 1,550,000
Series B debentures (note 13)	200,000	-
Accrued interest (note 15)	13,000	25,691
	813,000	1,575,691
Member:		
Term loan (note 13)	-	950,000
Accrued interest	-	9,790
	-	959,790
	$ 813,000	$ 2,535,481

The carrying value of the above loans and borrowings were reduced by discounts at December 31, 2018 and 2017, respectively (see note 13).

Related party purchase commitments

The Company has the option to purchase extraction equipment from a related party vendor, Khrysos, and in the past, did so under mutual exclusivity that required minimum purchases to remain in effect. However, the Company has expanded its range of product offerings to include other vendors in order to provide tailored, end-to-end solutions for customers, and accordingly no longer maintains the mutual exclusivity. The mutual exclusivity arrangement calls for a temporary price increase of 5% upon the Company repaying the $1,900,000 of term loans (Note 13), and until such time the Company has $16,000,000 (equivalent of $800,000) of cumulative equipment purchases from Khrysos. The term loans were subsequently modified to convertible debentures and converted to equity in July 2018 (note 13), however, no price increases are currently effective and the timing of such increases will be determined between the Company and Khrysos at a future undetermined date.

(19) Financial instrument risk exposures

Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash. The Company does not have significant credit risk with respect to customers. All cash is placed with major U.S. financial institutions. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of sales are transacted with cash.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. At December 31, 2018, the Company had current assets of $776,696 and current liabilities of $2,277,945. All current liabilities are due within one year. At December 31, 2018 the Company also had loans and borrowings of $6,920,664 of which $49,664 was repaid to date in 2019 and $6,871,000 are due in 2020.

Market risk

Currency risk

The Company has determined its functional currency to be the U.S. dollar. The operating results and financial position of the Company are reported in U.S. dollars. The Company has minimal financial transactions denominated in currencies other than the U.S. dollar. The Company has no hedging agreements in place with respect to foreign exchange rates.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

(20) Subsequent events

Equity and warrant issuances

In April and May 2019, the Company agreed to issue 712,045 shares of Class A common stock to investment advisors and a third party service provider.

In May 2019, the Company sold 45,455 shares of Class A common stock to a service provider at a price of $1.10CAD ($0.82), with such proceeds being used to pay another service provider, which is an entity that is a related party to the investor.

In March, April and May 2019, the Company issued 1,311,126 warrants to investment advisors, brokers and third party service providers with terms of two or five years and exercise price of $1.10CAD ($0.82) per share that vested immediately upon their issuance. 374,308 of these warrants have a five year term, and upon being exercised the holders receive a share of common stock and a warrant, which has a $1.50CAD ($1.12) exercise price and a five year term.

In July 2019, the Company issued 150,000 warrants to consultants with two year term and exercise price of $1.10CAD ($0.84) per share that vested immediately upon their issuance.

In May 2019, 830,000 issued options were forfeited as a result of the resignation of a certain employee.

Convertible debt

In March 2019, the Company amended the conversion feature of the Series C debentures pursuant to which each holder of such debentures will receive upon conversion at price of $0.94CAD ($0.70), thereof one share of common stock and a warrant, which has a $1.50CAD ($1.12) exercise price and a five year term, upon conversion.

In March and April 2019, the Company issued CAD$294,000 ($218,868) of convertible debentures to investment advisors and brokers for services rendered in raising debt subscriptions. The convertible debentures mature after 5 years and bear interest at a rate of 10% per annum payable in cash in equal quarterly installments. The convertible debentures convert into common stock and warrants at a conversion price of $1.10 CAD ($0.82) at the holders' option prior to maturity or upon a change of control. The warrants to be received have an exercise price of a $1.50CAD ($1.12) and have a five year term. Upon a change in control the Company is required to purchase the convertible debentures at a price of 105% of the principal balance plus accrued, unpaid interest.

Term loans

The Company received additional funding of $1,100,000 in the form of term loans from Archytas through May 2019. The term loans have maturity dates from six months to one year and bear interest at a rate of 18% per annum, payable monthly. No interest has been paid on any of the term loans as of August 22, 2019.

Subscription receipts

In March and April 2019, the Company completed a private placement of 5,882 subscription receipts for aggregate gross proceeds of approximately CAD$5,882,000 ($4,500,000) and closing costs of approximately CAD$560,000 ($426,000). Each subscription receipt is currently held in escrow, and upon satisfaction of the escrow release conditions, is convertible into one 10% unsecured convertible debenture of the Company in the principal amount of CAD$1,000 (the "Sub Receipt Debenture"). Each Sub Receipt Debenture has a five year maturity from issuance and is convertible at a conversion price of $1.10CAD ($0.82), at the election of the holder into one share of common stock and a warrant, which has a $1.50CAD ($1.12) exercise price and a five year term from the date the escrow release conditions are satisfied.

Related party transactions

Effective January 2019 the Company entered into a management services agreement with Archytas at a monthly rate of $28,667 and a term of five years, with one year automatic renewals, whereby Archytas will provide day-to-day executive management and support to the Company. In conjunction with entering into this agreement the Company's CEO and CMO terminated their employment agreements with the Company.

In January 2019, the owner and chief executive of Khrysos resigned from his position as the Company's chief technology officer.

In March 2019, the Company entered into a rental lease agreement with Carolina Botanical Development LLC ("CBD") to lease one extraction machine and other ancillary processing equipment to CBD. CBD has been identified as a related party to the Company as a result of a shareholder of the Company also being an owner of CBD. As part of this agreement, CBD has paid $100,000 to this related party.

Merger agreement

In March 2019, the Company entered into a definitive merger agreement with Caracara Silver Inc. ("Caracara") pursuant to which the Caracara will acquire all of the issued and outstanding common shares of Xtraction. It is currently contemplated that the transaction will be structured as a "reverse triangular merger" between Xtraction, Caracara and a wholly-owned subsidiary of Caracara to be incorporated under the laws of Delaware.

Xtraction Services Inc.

Financial Statements

For the Three Months ended March 31, 2019 and 2018

(Unaudited)

(Expressed in United States Dollars)

Xtraction Services, Inc.

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Xtraction Services Inc.
Condensed statements of comprehensive loss
For the three months ended March 31, 2019 and 2018
(unaudited)
(Expressed in United States Dollars)

	Note	Three months ended March 31, 2019	Three months ended March 31, 2018
Revenue	5	$ 541,317	$ -
Cost of sales	6	634,037	91,600
Gross loss		(92,720)	(91,600)
Administrative expenses	6	979,924	168,276
Sales and marketing expenses	6	77,133	25,237
Loss from operations		(1,149,777)	(285,113)
Financing expense, net		225,184	16,312
Accretion expense		452,836	159,177
Change in fair value of embedded derivatives	14	3,306,376	-
Loss on sale of property, plant and equipment	8	7,593	-
Loss before income tax		(5,141,766)	(460,602)
Income tax expense	17	975	-
Loss and comprehensive loss		$ (5,142,741)	$ (460,602)
Loss per share / unit - basic and diluted [1]		$ (0.16)	$ (0.02)
Weighted average shares / equity interest outstanding:			
Basic and diluted (post split)		32,501,238	25,000,000

Note to table:
1) In July 2018 the Company changed its status from a limited liability company to a corporation (note 1).

The accompanying notes are an integral part of these financial statements.

Xtraction Services Inc.
Condensed statements of financial position
As of March 31, 2019 and December 31, 2018
(Expressed in United States Dollars)

	Note	(unaudited) March 31, 2019	December 31, 2018
Assets			
Non-current assets			
Servicing equipment	7	$ 2,307,358	$ 2,479,196
Prepaid servicing equipment	7	2,799,952	2,770,397
Property, plant and equipment	8	8,792	65,678
Intangible asset	9	561,609	599,900
Total non-current assets		5,677,711	5,915,171
Current assets			
Inventories	11	95,187	96,166
Prepaid and other current assets	10	167,677	109,961
Trade and other receivables, net	12	24,868	36,421
Cash		690,589	534,148
Total current assets		978,321	776,696
Total assets		$ 6,656,032	$ 6,691,867
Shareholders' deficit and liabilities			
Capital and reserves			
Class A common stock	13	$ 3,183	$ 3,183
Class B common stock	13	68	68
Additional paid-in capital	13	5,969,310	5,317,232
Accumulated deficit		(11,357,443)	(6,214,702)
Total deficit		(5,384,882)	(894,219)
Non-current liabilities			
Loans and borrowings, long-term	14	3,913,019	4,216,627
Embedded derivative liabilities	14	4,397,890	1,091,514
Total non-current liabilities		8,310,909	5,308,141
Current liabilities			
Loans and borrowings, short-term	14	900,000	7,658
Trade and other payables	15	94,274	210,267
Accrued expenses	16	455,415	219,418
Unearned revenue	5	509,519	1,021,917
Amounts due to related parties	19	538,278	118,654
Warrant derivative liabilities	13	582,519	50,031
Redeemable common stock	14	650,000	650,000
Total current liabilities		3,730,005	2,277,945
Total liabilities		12,040,914	7,586,086
Total shareholders' deficit and liabilities		$ 6,656,032	$ 6,691,867

The accompanying notes are an integral part of these financial statements.

Xtraction Services Inc.
Condensed statements of changes in (deficit) equity
For the three months ended March 31, 2019 and 2018
(unaudited)
(Expressed in United States Dollars)

	Note	Class A member units	Members' Capital	Series A Common Stock Shares	Series A Common Stock Amount	Series B Common Stock Shares	Series B Common Stock Amount	Additional paid-in capital	Accumulated deficit	Total
Balance at January 1, 2018 (1)		25,000,000	$ 2,188,822	-	$ -	-	$ -	$ -	$ (375,057)	$ 1,813,765
Incentive compensation	18	-	21,245	-	-	-	-	-	-	21,245
Net loss		-	-	-	-	-	-	-	(460,602)	(460,602)
Balance at March 31, 2018		25,000,000	$ 2,210,067	-	$ -	-	$ -	$ -	$ (835,659)	$ 1,374,408
Balance at January 1, 2019		-	$ -	31,822,588	$ 3,183	678,650	$ 68	$ 5,317,232	$ (6,214,702)	$ (894,219)
Fair value allocation of loan borrowing proceeds	14	-	-	-	-	-	-	206,754	-	206,754
Incentive compensation	18	-	-	-	-	-	-	445,324	-	445,324
Net loss		-	-	-	-	-	-	-	(5,142,741)	(5,142,741)
Balance at March 31, 2019		-	$ -	31,822,588	$ 3,183	678,650	$ 68	$ 5,969,310	$(11,357,443)	$ (5,384,882)

Note to table:

1) In March 2018 the Company had a 25 for 1 unit split (note 12).

The accompanying notes are an integral part of these financial statements.

Xtraction Services Inc.
Condensed statements of cash flows
For the three months ended March 31, 2019 and 2018
(unaudited)
(Expressed in United States Dollars)

	Note	Three months ended March 31, 2019	2018
Cash flows from operating activities			
Loss for the period		$ (5,142,741)	$ (460,602)
Adjustments to reconcile loss to net cash flows:			
Depreciation and amortization	7,8,9	146,429	68,512
Gain on sale of servicing equipment	7	(165,566)	-
Loss on sale of property, plant and equipment	8	7,593	-
Incentive compensation expense	18	445,324	21,245
Finance and accretion expense	14	477,639	159,177
Change in fair value of embedded derivative liabilities	14	3,306,376	-
		(924,946)	(211,668)
Adjustments to operating assets and liabilities:			
Decrease in trade and other receivables	12	11,553	-
Decrease (increase) in inventories	11	979	(323,267)
(Increase) in prepaid and other current assets	10	(57,715)	(693)
(Decrease) increase in trade and other payables	15	(126,644)	31,719
Increase (decrease) in accrued expenses	16	235,997	(8,198)
Increase (decrease) in amounts due to related parties	19	160,779	(65,108)
Net cash flows used in operating activities		(699,997)	(577,215)
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment	8	46,380	-
Purchases of servicing equipment	7	(40,278)	(136,224)
Net cash flows provided by (used in) investing activities		6,102	(136,224)
Cash flows from financing activities			
Proceeds from loans and borrowings	14	900,000	-
Repayment of debt	14	(49,664)	-
Payment of deferred financing costs	14	-	(10,000)
Net cash flows provided by (used in) financing activities		850,336	(10,000)
Net increase (decrease) in cash		156,441	(723,439)
Cash at beginning of the period		534,148	848,047
Cash at end of the period		$ 690,589	$ 124,608
Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 521	$ 53,346
Supplemental disclosure of non-cash transactions:			
Non-cash investing and financing activities			
Purchases of servicing equipment included in trade and other payables and amounts due to related parties	15,19	$ 365,326	$ 180,000
Discount on loan borrowings proceeds	13	206,754	-
Issuance of convertible debt, net of discount of $199,944	13	70,056	-
Prepaid debt issuance costs - warrants issued	13	532,488	-
Servicing equipment sold and reduction to deferred revenue	5	512,398	-

The accompanying notes are an integral part of these financial statements.

Xtraction Services Inc.

Notes to Financial Statements

(unaudited)

(Expressed in United States Dollars)

(1) Background

Xtraction Services, Inc. (Xtraction Services or the Company) was established as a Delaware limited liability company on October 9, 2017. In July 2018, the Company filed with the Secretary of State of Delaware to change its corporate status from a Delaware limited liability company to a Delaware corporation and elected to be classified as a corporation. On July 19, 2018, the Company received a Certificate of Conversion and Certificate of Incorporation from the Secretary of State of Delaware.

The Company is in the business of providing and leasing extraction, processing, distillation and related equipment used to extract and distill oil from Cannabis and Hemp plants and it operates in one business segment in one geographic area. Its registered office is located at 930 Carter Rd. #214 / #216, Winter Garden, Florida 34787.

The accompanying financial statements have been approved by the Company's board members and are authorized for issuance as of August 22, 2019.

(2) Basis of presentation

Statement of compliance

These interim condensed financial statements have been prepared in accordance with International accounting standards ("IAS") 34 Interim Financial Reporting under the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2018 and 2017 audited financial statements.

Critical accounting estimates and judgements

In the application of the Company's accounting policies, the Company's management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(3) Going concern

The financial statements have been prepared on a going concern basis, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses and negative cash flows from operations since inception, and has an accumulated deficit of $11,357,443 and $6,214,702 as of March 31, 2019 and December 31, 2018, respectively. These conditions indicate the existence of material uncertainties that casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company anticipates incurring additional losses until such time it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements, and subsequent to March 31, 2019 has received additional financings of $200,000 (note 21). The financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements. These adjustments could be material.

(Expressed in United States Dollars)

The operations of the Company are subject to certain risks and uncertainties including, among others: uncertainty of product development; technological uncertainty; commercial acceptance of any developed products; dependence on collaborative partners; uncertainty regarding patents and proprietary rights; comprehensive government regulations; market risk; and dependence on key personnel.

(4) Significant accounting policies

The Company has applied the same accounting policies and methods of computation in its interim condensed financial statements as in its 2018 and 2017 annual financial statements except for adoption of *IFRS 16 Leases and IFRIC 23 Uncertainty over income tax treatments* on January 1, 2019.

Fair value of financial instruments

The following fair value hierarchy table presents information about each major category of the Company's financial assets measured at fair value on a recurring basis:

	Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of March 31, 2019:				
Liabilities:				
Warrant derivative liabilities (note 13)	$ -	$ -	$ 582,519	$ 582,519
Embedded derivative liabilities (note 14)	-	-	4,397,890	4,397,890
	$ -	$ -	$ 4,980,409	$ 4,980,409
As of December 31, 2018:				
Liabilities:				
Warrant derivative liabilities (note 13)	$ -	$ -	$ 50,031	$ 50,031
Embedded derivative liabilities (note 14)	-	-	1,091,514	1,091,514
	$ -	$ -	$ 1,141,545	$ 1,141,545

The estimated fair value of the warrant derivative and embedded derivative liabilities would increase or decrease if the expected volatility and conversion price was higher or lower.

The following table shows a reconciliation from January 1, 2019 through March 31, 2019 for Level 3 fair values:

(Expressed in United States Dollars)

	Warrant derivative liabilities	Embedded derivative liabilities	Total
Balance at January 1, 2019	$ 50,031	$ 1,091,514	$ 1,141,545
Warrants issued to investment advisors and brokers (note 13)	532,488	-	532,488
Net change in fair value (unrealized)	-	3,306,376	3,306,376
Balance at March 31, 2019	$ 582,519	$ 4,397,890	$ 4,980,409

New standards and interpretations recently adopted

Effective January 1, 2019, the Company has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective application method, where the 2018 comparatives are not restated and the cumulative effect of initially applying IFRS 16 has been recorded on January 1, 2019 for any differences identified, including adjustments to opening retained earnings balance. As of January 1, 2019 the Company had one lease as a lessee, which is a short-term operating lease, and one lease as a lessor, which is an operating lease. The Company evaluated both leases and concluded there was no impact on its financial statements and related disclosures upon the adoption of this standard.

The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of *IFRIC 23 Uncertainty over income tax treatments*.

The Company had no additional new standards adopted that resulted in changes to the Company's accounting policies.

(5) Revenue

The following table presents a disaggregation of revenue by source and timing of revenue recognition:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Revenue source:		
Equipment sales	$ 516,449	$ -
Lease or royalty sales	24,868	-
	$ 541,317	$ -
Timing of revenue recognition under IFRS 15 from contracts with customers:		
Products and services transferred at a point in time	$ 516,449	$ -

The Company's largest source of revenue resulted from the sale of equipment to a single customer. At March 31, 2019 and December 31, 2018 the Company had an unsatisfied performance obligation of $509,519 and $1,021,917, related to this customer deposit received on undelivered servicing equipment, which is reflected as unearned revenue in the statements of financial position. The Company has elected to adopt the practical expedient of IFRS 15 to not disclose information about remaining performance obligations where the contract has an expected duration of less than one year.

(Expressed in United States Dollars)

The following table presents minimum lease and royalty revenue expected to be recognized in future periods related to operating leases as of March 31, 2019.

	Year ended December 31,	
	2019	**2020**
Revenue expected to be recognized on royalty contracts	$ 225,000	$ 150,000

The above table represents one lease royalty arrangement effective June 30, 2018 that requires a minimum monthly payment of $25,000 following product installation through June 30, 2020. The Company began earning such minimums in the second quarter of 2019. The underlying servicing equipment carries an obligation of production performance that limits estimation capability of any variable component. The royalty arrangement also grants renewal rights for two successive two year periods; each requiring a minimum monthly payment of $25,000.

Revenue concentration

All of the Company's revenue is derived from customers in the United States with one customer representing 95% of the Company's recognized revenue in the three months ended March 31, 2019.

(6) Expenses by nature

The following tables presents an analysis of expense by nature:

(Expressed in United States Dollars)

	Three months ended March 31, 2019	2018
Cost of sales:		
Compensation and benefits	$ 80,655	$ 6,337
Depreciation expense	108,138	30,220
Amortization of intangible	38,291	38,292
Equipment purchases	349,411	9,483
Supplies and materials	28,853	399
Maintenance and repair costs	7,149	-
Other expenses	21,540	6,869
	$ 634,037	$ 91,600
Administrative expenses:		
Compensation and benefits	$ 24,704	$ -
Incentive compensation	445,324	21,245
Contractors and outside services	85,602	56,960
Management fee	88,400	-
Professional fees	171,015	28,970
Office rent, utilities and expenses	24,955	12,283
Travel meals and entertainment	22,393	22,166
Other expenses	117,531	26,652
	979,924	$ 168,276
Sales and marketing expenses:		
Compensation and benefits	$ 16,151	$ -
Contractors and outside services	-	16,667
Professional fees	50,333	2,500
Advertising and marketing	10,108	5,970
Other expenses	541	100
	$ 77,133	$ 25,237

(7) Servicing equipment

The following table below presents the change in carrying value of the Company's servicing equipment from January 1, 2019 through March 31, 2019:

	Balance at January 1, 2019	Additions	Sales	Balance at March 31, 2019
Cost or valuation				
Extraction equipment	$ 2,046,163	$ -	$ -	$ 2,046,163
Ancillary extraction equipment	6,268	-	-	6,268
Pre-processing equipment	17,118	-	-	17,118
Post-processing equipment	444,132	30,984	(97,597)	377,519
Distillation equipment	176,698	-	-	176,698
Analytical equipment	43,661	-	-	43,661
Vacuums	2,033	-	-	2,033
Total cost or valuation	$ 2,736,073	$ 30,984	$ (97,597)	$ 2,669,460
Accumulated depreciation	$ (256,877)	(105,225)	-	$ (362,102)
Net book value	$ 2,479,196	$ (74,241)	$ (97,597)	$ 2,307,358

The Company sold $97,597 of previously capitalized equipment directly to a customer in January 2019. The revenue recognized and net book value of the equipment is included in revenue and cost of sales, respectively, within the condensed statements of comprehensive loss for the three months ended March 31, 2019.

(Expressed in United States Dollars)

The cost of servicing equipment includes $866,589 and $835,605 subject to revenue generated from operating leases at March 31, 2019 and December 31, 2018, respectively.

The Company sold $249,235 of equipment, that was recorded in prepaid servicing equipment, directly to a customer in January 2019 prior to the servicing equipment being available for use. The carrying value of prepaid service equipment at March 31, 2019 and December 31, 2018 was $2,799,952 and $2,770,397, respectively, and represents servicing equipment purchased but not yet installed or delivered at a customer site, and servicing equipment that has yet to be allocated to a specific customer site. Approximately $829,000 of prepaid servicing equipment at March 31, 2019 relates to ongoing installations which are currently underway and expected to be completed in the coming months.

Depreciation expense related to servicing equipment is included in cost of sales within the condensed statements of comprehensive loss.

(8) Property, plant and equipment

The following table below presents the change in carrying value of the Company's property plant and equipment from January 1, 2019 through March 31, 2019:

	Balance at January 1, 2019	Additions	Sale	Balance at March 31, 2019
Cost or valuation				
Computers	$ 11,111	$ -	$ (3,997)	$ 7,114
Machinery and equipment	3,490	-	-	3,490
Vehicles	57,715	-	(57,715)	-
Total cost or valuation	$ 72,316	$ -	$ (61,712)	$ 10,604
Accumulated depreciation	$ (6,638)	(2,913)	7,739	$ (1,812)
Net book value	$ 65,678	$ (2,913)	$ (53,973)	$ 8,792

Depreciation expense related to property, plant and equipment is included in cost of sales expenses within the condensed statements of comprehensive loss.

(9) Intangible asset

The following table below shows the change in carrying value of the Company’s intangible asset from January 1, 2019 through March 31, 2019:

(Expressed in United States Dollars)

	Balance at January 1, 2019	Additions/ (Disposals)	Balance at March 31, 2019
Cost or valuation			
Purchase exclusivity and intellectual property rights	$ 765,830	$ -	$ 765,830
Accumulated amortization	$ (165,930)	(38,291)	$ (204,221)
Net book value	$ 599,900	$ (38,291)	$ 561,609

Amortization expense for the purchase and intellectual property rights is included in cost of sales within the condensed statements of comprehensive loss.

(10) Prepaid and other current assets

The following table presents prepaids and other assets:

	March 31, 2019	December 31, 2018
Prepaid insurance	$ 128,170	$ 54,372
Prepaid consulting services	-	45,333
Security deposit	13,400	3,500
Other	26,107	6,756
	$ 167,677	$ 109,961

(11) Inventories

Inventories primarily consist of spare parts that the Company purchased at cost, which it intends to either sell to customers as part of the installation of extraction and distillation equipment for customers or for repair orders. The carrying value of spare parts inventory as of March 31, 2019 and December 31, 2018 was $95,187 and $96,166, respectively.

(12) Trade and other receivables

The following table presents trade and other receivables:

	March 31, 2019	December 31, 2018
Trade receivables	$ 24,868	$ 6,421
Other receivable	-	30,000
	$ 24,868	$ 36,421

Trade receivables are net of allowance of $4,050 as of March 31, 2019.

The $30,000 receivable due from Khrysos at December 31, 2018 consisted of reimbursements for certain marketing expenditures and was paid in March 2019.

(Expressed in United States Dollars)

(13) Shareholder deficit

At March 31, 2019 and December 31, 2018 the Company had 225,000,000 authorized and 31,822,588 issued and outstanding Class A common stock with a par value of $0.0001, and 25,000,000 authorized and 678,650 issued and outstanding Class B common stock with a par value of $0.0001.

Warrant derivative liabilities

The fair value of warrant derivative liabilities at March 31, 2019 and December 31, 2018 was $582,519 and $50,031, respectively,

In March 2019 the Company issued 744,591 warrants to third party investment advisors and brokers for services rendered in raising debt subscriptions with 344,591 of the warrants having a five year term and a $1.10CAD ($0.82) exercise price. Upon being exercised the holders receive a share of common stock and a warrant, which have a $1.50CAD ($1.12) exercise price and a five year term. The remaining 400,000 warrants have a two year term and a $1.10CAD ($0.82) exercise price. The Company recorded $532,488 of prepaid debt issuance costs with an offset to warrant derivative liabilities, as a result of the exercise price of the warrants being denominated in a currency different from the Company's functional currency, within the statements of financial position.

The grant date fair value of the 744,591 warrant issuances in the three months ended March 31, 2019 was determined using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield		-
Expected volatility		90.0%
Risk-free interest rate		2.3%
Expected term		2 - 5 years
Exercise price	$	0.82 - 1.13

The fair value of the remaining warrant derivative liabilities valued at $50,031, remained unchanged at March 31, 2019. The Company performed a black-scholes model while probability weighting the expected exercise price.

The fair value of the warrant derivative liabilities were determined using the following assumptions as of March 31, 2019:

Expected dividend yield		-
Expected volatility		90.0%
Risk-free interest rate		2.3%
Expected term		0.4 years
Exercise price	$	0.70

The following table summarizes warrant activity from January 1, 2019 through March 31, 2019:

(Expressed in United States Dollars)

	Number of warrants	Weighted average exercise price per share
Outstanding at January 1, 2019	1,140,012	$ 0.66
Granted	744,591	$ 0.82
Outstanding at March 31, 2019	1,884,603	$ 0.72

(14) Loans and borrowings

The following table presents loans and borrowings outstanding:

Description	Maturity date	Interest rate	March 31, 2019	December 31, 2018
Term loans:				
Archytas	November 7, 2020	18.0%	$ 600,000	$ 600,000
Archytas	December 28, 2019	18.0%	500,000	-
Archytas	February 7, 2020	18.0%	100,000	-
Archytas	February 14, 2020	18.0%	150,000	-
Archytas	September 18, 2019	18.0%	150,000	-
			1,500,000	600,000
Series B convertible debentures:				
Tranche 1	April 12, 2020	8.0%	1,100,000	1,100,000
Tranche 2	May 4, 2020	8.0%	1,300,000	1,300,000
Tranche 3	May 17, 2020	8.0%	365,000	365,000
			2,765,000	2,765,000
Series C convertible debentures:				
Tranche 1	September 10, 2020	10.0%	2,000,000	2,000,000
Tranche 2	September 21, 2020	10.0%	785,000	785,000
Tranche 3	October 17, 2020	10.0%	500,000	500,000
Tranche 4	December 27, 2020	10.0%	221,000	221,000
			3,506,000	3,506,000
Convertible debentures	March 22, 2024	10.0%	270,000	-
Vehicle loan	July 24, 2024	6.3%	-	49,664
			8,041,000	6,920,664
Less:				
Unamortized discounts and debt issuance costs and prepaid offering costs (1)			(3,227,981)	(2,696,379)
			$ 4,813,019	$ 4,224,285
Non-current			$ 3,913,019	$ 4,216,627
Current			$ 900,000	$ 7,658

Note to the table:

1) The carrying value of the term loans, Series B and Series C debentures and the convertible debentures were adjusted using a discount rate of 50% to reflect the prevailing borrowing rates associated with debt acquired by companies with a similar credit risk profile as Xtraction Services, resulting in debt discounts with an offset to equity. The debt discount will be accreted over the life of the respective debt instruments using the effective interest method.

(Expressed in United States Dollars)

The following table below shows the change in carrying value of the Company's loans and borrowings from January 1, 2019 through March 31, 2019:

	Term Loans	Convertible debentures	Vehicle loan	Debt discounts, issuance costs and prepaid offering costs	Total
Balance at January 1, 2019	$ 600,000	$ 6,271,000	$ 49,664	$(2,696,379)	$ 4,224,285
Borrowings	900,000	-	-	(206,754)	693,246
Repayments	-	-	(49,664)	-	(49,664)
Issuance of convertible debt	-	270,000	-	(199,944)	70,056
Prepaid offering costs	-	-	-	(602,543)	(602,543)
Amortization and accretion of debt issuance and debt discount costs	-	-	-	477,639	477,639
Balance at March 31, 2019	$ 1,500,000	$ 6,541,000	$ -	$(3,227,981)	$ 4,813,019

Term loans

In January, February and March 2019 the Company received additional funding of $900,000 in the form of term loans ("2019 term loans") from Archytas with maturity dates ranging from September 2019 to February 2020. The 2019 term loans bear interest at a rate of 18% per annum, payable monthly.

Convertible debentures

In April 2019 the Company received majority support of the Series B holders to amend the interest payment terms of the Series B debentures. As a result all interest payments payable to the Series B debenture holders are deferred starting in October 2018, and all such interest payments shall be payable-in-kind on the maturity date.

In March 2019, the Company issued CAD$270,000 ($201,056) of convertible debentures to investment advisors and brokers for services rendered in raising debt subscriptions. The convertible debentures mature after 5 years and bear interest at a rate of 10% per annum payable in cash in equal quarterly installments. The convertible debentures convert into common stock and warrants at a conversion price of $1.10CAD ($0.82) at the holders' option prior to maturity or upon a change of control. The warrants to be received have an exercise price of a $1.50CAD ($1.12) and have a five year term. Upon a change in control the Company is required to purchase the convertible debentures at a price of 105% of the principal balance plus accrued, unpaid interest. The Company has accounted for the fair value of the convertible debt at issuance of $70,056 as prepaid debt issuance costs, within the statements of financial position. The debt discount of $199,944 is being amortized to interest expense over the term of the debt under the effective interest rate method.

In March 2019, the Company amended the conversion feature of the Series C debentures pursuant to which each holder of such debentures will receive upon conversion at price of $0.94CAD ($0.70), thereof one share of common stock and a warrant, which has a $1.50CAD ($1.12) exercise price and a five year term, upon conversion.

Embedded derivative liabilities

At March 31, 2019 the embedded derivative liabilities were re-valued at $4,397,890, with the change in fair value of $3,306,376 reflected in the condensed statements of comprehensive loss for the three months ended March 31, 2019. The Company performed a black-scholes model while probability weighting the expected conversion price.

(Expressed in United States Dollars)

The fair value of the embedded derivative liabilities were determined using the following assumptions as of March 31, 2019:

Expected dividend yield		-
Expected volatility		90.0%
Risk-free interest rate		2.3%
Expected term		0.4 years
Conversion price	$	0.70

Redeemable common stock

In July 2018, Archytas and the Member exercised the conversion feature and received a combined 6,737,588 shares of Class A common stock. The Company classified $650,000 of the amount converted as redeemable common stock and a liability as this represents amounts subject to rescission due to an ongoing governmental investigation of the Member's finances.

(15) Trade and other payables

The following table presents trade and other payables:

	March 31, 2019	December 31, 2018
Trade payables	$ 89,342	$ 182,155
Credit card payable	4,932	28,112
	$ 94,274	$ 210,267

(16) Other current liabilities

The following table presents accrued expenses:

	March 31, 2019	December 31, 2018
Accrued interest	$ 286,009	$ 147,059
Accrued compensation, benefts and related taxes	-	18,988
Accrued insurance	120,825	41,071
Accrued other	48,581	12,300
	$ 455,415	$ 219,418

(Expressed in United States Dollars)

(17) Income taxes

Income tax expense

	Three months ended March 31,	
	2019	2018
Current tax:		
Current tax on profits for the year	$ 975	$ -
Income tax expense	$ 975	$ -

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to March 31, 2019 was 26.53%, compared to 0% for the three months ended March 31, 2018. Prior to the July 19, 2018, the Company was a limited liability company treated as a partnership for federal and state income tax purposes with all income tax liabilities and/or benefits of the Company being passed through to the members. As such, no recognition of federal or state income taxes for the Company have been provided for the three months ending March 31, 2018.

(18) Incentive compensation

In July 2018 in connection with the Company electing to be classified as a corporation, the Company adopted the 2018 Stock Option Plan ("Option Plan") to provide for the granting of up to 5,000,000 share-based equity incentive compensation awards such as stock options and restricted stock awards to employees, contractors, and advisors, as determined by the Company's board of directors.

The following table summarizes stock option activity under the Option Plan from January 1, 2019 through March 31, 2019:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at January 1, 2019	3,567,893	$ 0.60	9.5
Cancelled / forfeited	(225,241)	0.60	
Outstanding at March 31, 2019	3,342,652	$ 0.60	9.3
Exercisable and vested at March 31, 2019	857,523	$ 0.60	9.3

In January and February 2019, 225,241 of the issued options were forfeited as result of the resignation of certain employees of the Company. Additionally in January 2019 the Company accelerated the vesting of 857,523 options for one individual to allow for immediate vesting.

As of March 31, 2019 there was approximately $628,000, respectively, of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 2.3 years.

(Expressed in United States Dollars)

The Company recorded compensation expense for restricted stock awards and stock options, including non-cash compensation related to cancelled restricted units, of $445,324 and $21,245 for the three months ended March 31, 2019 and 2018, respectively.

(19) Related party transactions

The following presents balances and transactions between the Company and other related parties as of March 31, 2019 and December 31, 2018, respectively, and for the periods ended March 31, 2019 and 2018, respectively.

Key management personnel

Key employees include executive management with the authority and responsibility for planning, directing and controlling the activities of the Company. The following table presents compensation and benefit expenses of key employees:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Salaries, guaranteed payments, benefits	$ 119,714	$ 9,675
Incentive compensation	349,136	-
	$ 468,850	$ 9,675

Related party other receivable

	March 31, 2019	December 31, 2018
Other receivable (note 12) - Khrysos	$ -	$ 30,000

Related party transactions and amounts due to related parties

The following table presents expenses incurred on behalf of the Company and assets purchased from related parties:

	Archytas	Khrysos	Total
Amounts due to related parties at January 1, 2018	$ 104,035	$ 92,927	$ 196,962
Interest expense	21,656	-	21,656
Expenses	-	1,125	1,125
Inventory and prepaid equipment purchases	-	362,518	362,518
Less payments to related parties	(62,588)	(455,625)	(518,213)
Amounts due to related parties at March 31, 2018	$ 63,103	$ 945	$ 64,048
Amounts due to related parties at January 1, 2019	$ 13,000	$ 105,654	$ 118,654
Interest expense	60,443	-	60,443
Management fee	88,400	-	88,400
Operating expenses	-	11,936	11,936
Prepaid equipment purchases	-	258,845	258,845
Amounts due to related parties at March 31, 2019	$ 161,843	$ 376,435	$ 538,278

(Expressed in United States Dollars)

Effective January 2019 the Company entered into a management services agreement with Archytas at a monthly rate of $28,667 and a term of five years, with one year automatic renewals, whereby Archytas will provide day-to-day executive management and support to the Company. In conjunction with entering into this agreement the Company's CEO and CMO terminated their employment agreements with the Company. Additionally, Archytas will receive a fee for services provided on a successful acquisition, merger or change of control of the Company valued at 2% of the enterprise value of such transaction. As of March 31, 2019 all amounts earned under the management services agreement are unpaid, and are reflected as a liability within the condensed statements of financial position.

Related party loans and borrowings

The following table presents the Company's loans and borrowings, and related interest, from related parties:

	March 31, 2019	December 31, 2018
Archytas:		
Term loans (note 14)	$ 1,500,000	$ 600,000
Series B debentures (note 14)	200,000	200,000
Accrued interest	73,443	13,000
	$ 1,773,443	$ 813,000

The carrying value of the above loans and borrowings were reduced by discounts at March 31, 2019 and December 31, 2018, respectively (see note 14).

Related party purchase commitments

The Company has the option to purchase extraction equipment from a related party vendor, Khrysos, and in the past, did so under mutual exclusivity that required minimum purchases to remain in effect. However, the Company has expanded its range of product offerings to include other vendors in order to provide tailored, end-to-end solutions for customers, and accordingly no longer maintains the mutual exclusivity. The mutual exclusivity arrangement calls for a temporary price increase of 5% upon the Company repaying the $1,900,000 of term loans (Note 13), and until such time the Company has $16,000,000 (equivalent of $800,000) of cumulative equipment purchases from Khrysos. The term loans were subsequently modified to convertible debentures and converted to equity in July 2018, however, no price increases are currently effective and the timing of such increases will be determined between the Company and Khrysos at a future undetermined date.

Related party sales

In March 2019, the Company entered into a rental lease agreement with Carolina Botanical Development LLC ("CBD") to lease one extraction machine and other ancillary processing equipment to CBD. CBD is a related party to the Company as a result of a shareholder of the Company also being an owner of CBD. As part of this agreement, CBD has paid $100,000 to this related party.

(20) Financial instrument risk exposures

Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash. The Company does not have significant credit risk with respect to customers. All cash is placed with major U.S. financial institutions. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of sales are transacted with cash.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. At March 31, 2019, the Company had current assets of $978,321 and current liabilities of $3,730,005. All current liabilities are due within one year. At March 31, 2019 the Company also has loans and borrowings of $8,041,000 of which $650,000 are due in 2019, $7,121,000 are due in 2020 and $270,000 are due in 2024.

Market risk

Currency risk

The Company has determined its functional currency to be the U.S. dollar. The operating results and financial position of the Company are reported in U.S. dollars. The Company has minimal financial transactions denominated in currencies other than the U.S. dollar. The Company has no hedging agreements in place with respect to foreign exchange rates.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

(21) Events after the reporting date

Equity and warrant issuances

In April and May 2019, the Company agreed to issue 712,045 shares of Class A common stock to investment advisors and a third party service provider.

In May 2019, the Company sold 45,455 shares of Class A common stock to a service provider at a price of $1.10CAD ($0.82), with such proceeds being used to pay another service provider, which is an entity that is a related party to the investor.

In April and May 2019, the Company issued 566,535 warrants to investment advisors, brokers and third party service providers with terms of two or five years and exercise price of $1.10CAD ($0.82) per share that vested immediately upon their issuance. 29,717 of these warrants have a five year term, and upon being exercised the holders receive a share of common stock and a warrant, which has a $1.50CAD ($1.12) exercise price and a five year term.

In July 2019, the Company issued 150,000 warrants to consultants with two year term and exercise price of $1.10CAD ($0.84) per share that vested immediately upon their issuance.

In May 2019, 830,000 issued options were forfeited as a result of the resignation of a certain employee.

Convertible debt

In April 2019, the Company issued CAD$24,000 ($17,813) of convertible debentures to brokers for services rendered in raising debt subscriptions. The convertible debentures mature after 5 years and bear interest at a rate of 10% per annum payable in cash in equal quarterly installments. The convertible debentures convert into common stock and warrants at a conversion price of $1.10CAD ($0.82) at the holders' option prior to maturity or upon a change of control. The warrants to be received have an exercise price of a $1.50CAD ($1.12) and have a five year term. Upon a change in control the Company is required to purchase the convertible debentures at a price of 105% of the principal balance plus accrued, unpaid interest.

Term loan

In April 2019 the Company received additional funding of $200,000 in the form of a term loan from Archytas. The term loan has a maturity date of six months and bears interest at a rate of 18% per annum, payable monthly. No interest has been paid on the term loan as of August 22, 2019.

Subscription receipts

In March and April 2019, the Company completed a private placement of 5,882 subscription receipts for aggregate gross proceeds of approximately CAD$5,882,000 ($4,500,000) and closing costs of approximately CAD$560,000 ($426,000). Each subscription receipt is currently held in escrow, and upon satisfaction of the escrow release conditions, is convertible into one 10% unsecured convertible debenture of the Company in the principal amount of CAD$1,000 (the "Sub Receipt Debenture"). Each Sub Receipt Debenture has a five year maturity from issuance and is convertible at a conversion price of $1.10CAD ($0.82), at the election of the holder into one share of common stock and a warrant, which has a $1.50CAD ($1.12) exercise price and a five year term from the date the escrow release conditions are satisfied.

Merger agreement

In March 2019, the Company entered into a definitive merger agreement with Caracara Silver Inc. ("Caracara") pursuant to which the Caracara will acquire all of the issued and outstanding common shares of Xtraction. It is currently contemplated that the transaction will be structured as a "reverse triangular merger" between Xtraction, Caracara and a wholly-owned subsidiary of Caracara to be incorporated under the laws of Delaware.

SCHEDULE "B"
XTRACTION MD&A

(PLEASE SEE ATTACHED)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018 AND PERIOD FROM INCEPTION (OCTOBER 9, 2017) THROUGH DECEMBER 31, 2017 AND THREE MONTHS ENDED MARCH 31, 2019 and 2018

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of the operations of Xtraction Services Inc. ("Xtraction", the "Company", "our" or "we") constitutes management's review of the factors that affected the Company's financial and operating performance for the 12 months ended December 31, 2018, period from inception (October 9, 2017) to December 31, 2017 and three months ended March 31, 2019 and 2018. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's audited financial statements for the twelve months ended December 31, 2018 and period from inception (October 9, 2017) to December 31, 2017 together with the notes thereto, and the Company's unaudited interim condensed financial statements and the accompanying notes for the three months ended March 31, 2019 and 2018. The annual financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the IASB. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. All amounts in the annual and interim financial statements and this discussion are expressed in United States dollars, unless otherwise stated. The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at August 22, 2019 unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Xtraction's securities; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

This discussion contains forward-looking statements that are historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to Xtraction Services' future results as there are inherent difficulties in predicting future results. This MD&A includes, but is not limited to, forward looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements.

GOING CONCERN ASSUMPTION

The financial statements have been prepared on a going concern basis, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at March 31, 2019 and December 31, 2018, the Company had a working capital deficiency of $2,751,684 and $1,501,249, respectively, and an accumulated deficit of $11,357,443 and $6,214,702, respectively. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, and to continue to obtain equity investment and borrowings sufficient to meet current and future obligations and/or restructure the existing debt and payables. These conditions indicate the existence of a material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured.

The Company anticipates incurring additional losses until such time it can generate sufficient revenue from its operations to cover its expenses. While the Company has been successful in obtaining equity and debt funding for operating and capital requirements, there can be no assurance that the Company will be able to obtain additional funds on reasonable terms, if at all.

OVERVIEW OF THE COMPANY

Description of Business

Xtraction Services is in the business of providing and leasing extraction, processing, distillation and related equipment used to extract and distill oil from Cannabis and hemp plants. The Company specializes in providing equipment leasing solutions in the United States to owner/operators of cannabis and hemp oil extraction facilities, as well as companies requiring product testing services and formulated product makers. The Company generates the vast majority of its equipment sales and leases through its employee sales force, who focus on equipment vendors and direct equipment users. Xtraction distinguishes itself from traditional equipment leasing companies in that it:

- offers equipment-specific leasing and purchasing solutions;
- contracts are primarily internally generated through its own vendor and direct relationships; and
- provides analytical and support services, standard operating procedures, consultative sales assistance, and testing protocols beyond the equipment manufacturers whose products it is leasing

While customers may purchase the Company's equipment outright (pursuant to direct sales and services agreements), Xtraction provides customers with the option of leasing equipment in consideration for fixed, monthly lease payments (pursuant to lease agreements) and/or in consideration for royalty payments tied to the volume of cannabis and hemp extracted (pursuant to royalty agreements).

Xtraction currently operates within the mid-ticket segment of the cannabis and hemp equipment industry. The mid-ticket segment of the equipment finance industry involves financing for the acquisition of equipment ranging in value from approximately $10,000 to over $1,000,000. The equipment financing industry is currently limited in the US due to the federal illegality of cannabis and the various state and federal restrictions on cannabis and hemp. This dynamic presents the opportunity for equipment financing from alternative providers of financing, as opposed to traditional sources, including banks and credit unions.

Recent Developments and Outlook

Xtraction continues to assess numerous acquisition opportunities and intends to focus on pursuing those opportunities that align with its acquisitive growth objectives, primarily in the US. Target assets will primarily consist of businesses that can provide Xtraction with immediate origination and processing capabilities and a strong local management team. While Xtraction takes a disciplined approach to acquisition opportunities it is willing to pursue, it believes that significant strategic and accretive opportunities exist as many current equipment financing, as well as other specialty financing firms throughout the US, lack sufficient access to capital or are burdened with expensive sources of capital.

Through 2018, Xtraction worked with Khrysos Global Inc. ("Khrysos") to distribute its Co2 and ancillary extraction equipment. Xtraction has since expanded its vendor network to include additional equipment manufacturers which can provide tailored solutions for its expanding customer base. This was primarily driven by Xtraction's determination that in addition to Co2 equipment, there is a growing need for equipment leasing solutions in a variety of different processing technologies, in particular ethanol technology, given its advantages in processing hemp. The recent signing in the United States of the Agriculture Improvement Act of 2018 creates significant opportunities in CBD extraction through hemp, and the demand in related equipment has bolstered the Xtraction pipeline.

Since Xtraction's creation less than 2 years ago, the Company has established key customer relationships, some of which became revenue generating in 2018; the remainder of its established customer base is expected to become revenue generating in 2019. Currently, Xtraction has an active, royalty-based lease agreement with Kylex Botanicals ("Kylex") which became revenue generating in 2018 and is expected to increase in 2019 in tandem with Kylex's business activities. Xtraction has also received payment from Vash Holdings for the sale of crude oil refinement equipment. Key equipment has been partially delivered, with the remainder to be delivered in the coming months.

In November 2018, Xtraction entered into a royalty-based lease agreement with Puritix, LLC ("Puritix") to provide Puritix with two (2) full production lines of equipment which will be used to produce CBD distillate oil. Per the terms of the agreement, Xtraction will receive $1 per gram of distillate oil that is produced through the equipment by Puritix for a period of 30 months with a minimum monthly revenue requirement of $50,000. As of June 2019, the Company is awaiting delivery and final installation of servicing equipment at Puritix. The Company anticipates revenues to commence shortly after installation is complete.

In March 2019, Xtraction entered into a rental lease agreement with Carolina Botanical Development LLC ("CBD"), to lease one extraction machine and other ancillary processing equipment. CBD has been identified as a related party to the Company as a result of a shareholder of the Company also being an owner of CBD. Per the terms of the agreement, the lease has a term of 12 months with expected total monthly rentals of approximately $235,000 and an end of lease balloon payment of approximately $302,000 to be received by Xtraction less $100,000 to be paid directly to the related party owner of CBD and shareholder of Xtraction. As of June 2019, the Company has completed delivery and installation of the servicing equipment at CBD, and has begun to generate revenues.

Components of Our Results of Operations

Revenue

The Company derives the majority of its revenue from sale, leasing and service of extraction, processing, distillation and related equipment ("servicing equipment") used to extract and distill oil from Cannabis and Hemp plants. The Company's products and services include: (i) the sale or lease of its specialized equipment and processes; (ii) the provision of an on-site, on-demand team of industry leading experts in extraction, lab sciences, processing, and manufacturing who work directly with its customers; and (iii) the provision of analytical services to further drive efficiency and maximize the extraction of a full spectrum of active compounds in cannabis.

Cost of Sales and Gross Profit

Gross profit is calculated as revenue less cost of sales. Cost of sales represents those costs directly attributable to the generation of our revenue, and primarily includes personnel costs, including salaries and benefits, equipment costs, supplies, maintenance and repairs. Cost of sales also includes non-cash items such as depreciation and amortization of Company servicing equipment and its intangible asset.

Operating Expenses

Operating expenses consist of administrative, selling and marketing costs. Administrative expenses primarily represent contractor costs, personnel costs, including salaries, benefits, incentive-based non-cash compensation and other professional service costs, including legal and accounting, to support Company operations. Selling costs primarily represent contractor costs and personnel costs, including a portion of salaries, benefits and marketing activities related to customer acquisition.

Other Expenses

Other expenses consist of financing interest expense on notes payable and convertible debentures, non-cash interest expense for debt issuance costs and debt discounts related to the issuance of our convertible debentures and mark-to-market changes in the fair value of embedded derivatives within the convertible debentures.

Income Taxes

The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. Prior to July 19, 2018, the Company was a limited liability company treated as a partnership for federal and state income tax purposes with all income tax liabilities and/or benefits of the Company being passed through to its members. As such, no recognition of federal or state income taxes has been provided prior to July 19, 2018.

RESULTS OF OPERATIONS

The following table sets forth selected financial information for the periods indicated that was derived from our audited financial statements and unaudited interim condensed financial statements and the respective accompanying notes prepared in accordance with IFRS.

	Three Months Ended March 31,				Year Ended December 31,		Period From Inception (October 9, 2017) through December 31,	
	2019		2018		2018		2017	
Revenue	$	541,317	$	-	$	146,776	$	-
Cost of sales	$	634,037	$	91,600	$	1,135,833	$	58,933
Gross loss	$	(92,720)	$	(91,600)	$	(989,057)	$	(58,933)
Operating expenses	$	1,057,057	$	193,513	$	3,575,562	$	191,362
Other expense	$	3,991,989	$	175,489	$	1,274,051	$	124,762
Loss	$	(5,142,741)	$	(460,602)	$	(5,839,645)	$	(375,057)

	March 31,		December 31,			
	2019		2018		2017	
Total assets	$	6,656,032	$	6,691,867	$	3,491,541
Total liabilities	$	12,040,914	$	7,586,086	$	1,677,776

Three Months Ended March 31, 2019 as Compared to the Three Months Ended March 31, 2018

Revenue

Revenues for the three months ended March 31, 2019 were $541,317 compared with nil for the three months ended March 31, 2018, and was comprised primarily of direct equipment sales to a customer. To a lesser extent, a portion of revenue resulted from lease royalties provided to a customer. Due to the start-up nature of the operation, no revenue was recognized for the three months ended March 31, 2018.

Cost of Sales and Gross Loss

Cost of sales for the three months ended March 31, 2019 were $634,037 compared with $91,600 for the three months ended March 31, 2018. The increase in cost sales was primarily attributable to the costs associated with equipment purchases and maintenance, and personnel costs associated with our servicing equipment. Cost of sales consisted primarily of (i) depreciation expense related to equipment, (ii) purchases of equipment sold directly to customers, (iii) amortization of intangible asset, (iv) maintenance, supplies and repair costs of our servicing equipment and (v) compensation and related expenses for personnel providing services to customers.

Gross loss for the three months ended March 31, 2019 was a loss of $(92,720), and was relatively unchanged compared to a loss of $(91,600) for the three months ended March 31, 2018.

Operating Expenses

Operating expenses for the three months ended March 31, 2019 were $1,057,057 compared with $193,513 for the three months ended March 31, 2018. The following tables presents the components of operating expenses:

	Thre e Months Ende d	
	2019	**2018**
Administrative expenses:		
Personnel and contractor costs	$ 110,306	$ 56,960
Professional fees	171,015	28,970
Incentive compensation	445,324	21,245
Occupancy expense	24,955	12,283
Management fee	88,400	-
Other	139,924	48,818
Total administrative expenses	979,924	168,276
Selling and marketing expenses:		
Personnel and contractor costs	$ 16,151	$ 16,667
Marketing and trade shows	10,108	5,970
Professional fees	50,333	2,500
Other	541	100
Total selling and marketing expenses	77,133	25,237
	$ 1,057,057	$ 193,513

The increase in administrative and selling and marketing expenses in the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 was primarily attributable to the increase in professional fees related to legal, audit, tax, marketing and internal accounting costs. Additionally in 2019 the Company began to incur a management fee from a related party to provide day-to-day executive management and support to the Company as well as increased personnel costs and incentive compensation for both employees and contractors as the Company expanded operations. The increase in other costs was attributable to increased travel costs associated with servicing and obtaining customers.

Other Expense

Other expense for the three months ended March 31, 2019 was $3,991,989 compared with $175,489 for the three months ended March 31, 2018. The increase in other expense was primarily attributable to the change in fair value of the embedded derivative liabilities, and to a lesser degree financing expense for interest on term loans and convertible debt and non-cash accretion expense associated with debt issuance costs, and debt discounts on our note payables and convertible debt.

Loss

The Company's loss for the three months ended March 31, 2019 was $(5,142,741) compared to a loss of $(460,602) for the three months ended March 31, 2018.

Year Ended December 31, 2018 as Compared to the Period From Inception (October 9, 2017) to December 31, 2017

Revenue

Revenues for the year ended December 31, 2018 were $146,776 compared with nil for the period from inception (October 9, 2017) to December 31, 2017, and was comprised primarily of direct equipment sales to customers. To a lesser extent, a portion of revenue resulted from lease royalties and professional services provided to customers. Due to the start-up nature of the operation, no revenue was recognized for the period from inception (October 9, 2017) to December 31, 2017.

Cost of Sales and Gross Loss

Cost of sales for the year ended December 31, 2018 were $1,135,833 compared with $58,933 for the period from inception (October 9, 2017) to December 31, 2017. The increase in cost sales was primarily attributable to the costs associated with equipment purchases and maintenance, and personnel costs associated with our servicing equipment. Cost of sales consisted primarily of (i) depreciation expense related to servicing equipment, (ii) purchases of equipment sold directly to customers, (iii) amortization of intangible asset, (iv) maintenance, supplies and repair costs of our servicing equipment and (v) compensation and related expenses for personnel providing services to customers.

Gross loss for the year ended December 31, 2018 was a loss of $(989,057) compared to a loss of $(58,933) for the period from inception (October 9, 2017) to December 31, 2017. The increase in the gross loss was directly attributable to increased costs associated with the growth in operations.

Operating Expenses

Operating expenses for the year ended December 31, 2018 were $3,575,562 compared with $191,362 for the period from inception (October 9, 2017) to December 31, 2017. The following tables presents the components of operating expenses:

	Year Ended December 31, 2018	From the Period Inception (October 9, 2017) through December 31, 2017
Administrative expenses:		
Personnel and contractor costs	$ 777,709	$ 59,989
Professional fees	757,356	32,229
Incentive compensation	874,772	-
Occupancy expense	60,991	5,458
Travel meals and entertainment	223,136	45,026
Other	119,500	21,318
Total administrative expenses	2,813,464	164,020
Selling and marketing expenses:		
Personnel and contractor costs	$ 349,351	$ 20,666
Marketing and trade shows	258,179	6,676
Professional fees	119,272	-
Other	35,296	-
Total selling and marketing expenses	762,098	27,342
	$ 3,575,562	$ 191,362

The increase in administrative and selling and marketing expenses in the year ended December 31, 2018 as compared to the period of inception (October 9, 2017) through December 31, 2017 was primarily attributable to the increase in personnel and related wages, benefits and incentive compensation for both employees and contractors as the Company expanded operations. The increase in professional fees primarily included legal, audit, tax, marketing and internal accounting costs, including costs associated with preparing the Company to be publicly traded. The increase in marketing and trade shows costs primarily included the costs associated with various marketing and advertising initiatives as well as the attendance of industry trade shows. The increase in other costs was attributable to increased travel costs associated with servicing and obtaining customers.

Other Expense

Other expense for the year ended December 31, 2018 was $1,274,051 compared with $124,762 for the period of inception (October 9, 2017) through December 31, 2017. The increase in other expense was primarily attributable to additional financing expense for interest on term loans and convertible debt, non-cash accretion expense associated with debt issuance costs, and debt discounts on our note payables and convertible debt slightly offset by the change in fair value of the Company's embedded derivative liability.

Loss

The Company's loss for the year ended December 31, 2018 was $(5,839,645) compared to a loss of $(375,057) for the period from inception (October 9, 2017) to December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company's primary need for liquidity is to finance growth initiatives including equipment acquisition, leasing activities, other capital expenditures, debt service and for general corporate purposes. The Company's primary source of liquidity to date has been funds generated by private financing via convertible debentures and term loans. The Company began to generate revenue from operations in the third quarter of 2018. The Company's ability to fund its operations, make planned capital expenditures, satisfy scheduled debt payments and repay or refinance indebtedness depends on the Company's future operating performance and cash flows. These cash flows are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control.

As of March 31, 2019, the Company had $690,589 of cash, a working capital (current assets minus current liabilities) deficit of $(2,751,684), and an accumulated deficit of $(11,357,443) compared with $534,148 of cash, working capital deficit of ($1,501,249) and an accumulated deficit of $(6,214,702) as of December 31, 2018. The decrease in working capital by $1,250,435 was primarily attributable to the funding of operations and purchase of servicing equipment partially offset by the proceeds from revenues. The increase in accumulated deficit $5,142,741 was primarily attributable to the change in the fair value of the embedded derivative liabilities as well as the funding of operations.

The Company anticipates incurring additional losses until such time it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements.

Cash Flows

The following table sets forth the primary sources and uses of cash for the three months ended March 31, 2019, year ended December 31, 2018 and from the period of inception (October 9, 2017) through December 31, 2017:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Year Ended December 31, 2018	From the Period Inception (October 9, 2017) through December 31, 2017
Cash flows used in operating activities	$ (699,997)	$ (577,215)	$ (3,549,010)	$ (107,963)
Cash flows provided by (used in) investing activities	$ 6,102	$ (136,224)	$ (2,869,961)	$ (1,644,000)
Cash flows provided by (used in) financing activities	$ 850,336	$ (10,000)	$ 6,105,072	$ 2,600,010

Cash Flow from Operating Activities

Net cash used in operating activities for the three months ended March 31, 2019 was $699,997 primarily due to a loss for the period of $5,142,741, offset in part by non-cash adjustments of $4,217,795 including a change in fair value of the embedded derivative liabilities, accretion of debt issuance costs and discounts, depreciation, amortization, non-cash compensation and incentive compensation, offset by a gain on sale of servicing equipment.

Net cash used in operating activities for the three months ended March 31, 2018 was $577,215 primarily due to a loss for the period of $460,602 and increase in inventory by $323,267, offset in part by non-cash adjustments of $248,934 primarily attributable to the accretion of debt issuance costs and discounts on note payables and convertible debt, depreciation and incentive compensation expense.

Net cash used in operating activities for the year ended December 31, 2018 was $3,549,010 primarily due to a loss for the period of $5,839,645, offset in part by non-cash adjustments of $2,212,204 primarily attributable to the accretion of debt issuance costs and discounts on note payables and convertible debt, depreciation, amortization, non-cash compensation and incentive compensation expense.

Net cash used in operating activities for the period of inception (October 9, 2017) through December 31, 2017 was $107,963 and was primarily due to a loss of $375,057, offset by a $151,530 decrease in working capital components offset and non-cash adjustments of $115,564.

Cash Flow from Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2019 of $6,102 was due to the proceeds from the sale of property, plant and equipment, offset in part by the purchase of servicing equipment.

Net used in investing activities for the three months ended March 31, 2018 of $136,224 and represented the purchase of servicing equipment.

Net cash used in investing activities for the year ended December 31, 2018 of $2,869,961 was primarily due to the purchase of servicing equipment totaling $3,867,811, offset in part from proceeds from the sale of servicing equipment of $1,070,166.

Net cash used in investing activities for the period of inception (October 9, 2017) through December 31, 2017 was $1,644,000 and represented the purchase of servicing equipment.

Cash Flow from Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2019 was $850,336 and consisted primarily of proceeds from loans and borrowings, specifically term loans of $900,000, offset in part by repayments of loans and borrowings.

Net cash used in financing activities for the three months ended March 31, 2018 was $10,000 and represented payment of deferred financing costs.

Net cash provided by financing activities for year ended December 31, 2018 was $6,105,072 and consisted primarily of proceeds from loans and borrowings, specifically convertible debt, of $6,271,000, offset in part by payment of deferred financing costs.

Net cash provided by financing activities for the period of inception (October 9, 2017) through December 31, 2017 was $2,600,010 and represented proceeds of $100,010 from member capital contributions, and $2,500,000 cash received from term loans.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company may be subject to contractual obligations to make future payments in relation to contracts or other financial commitments. As at March 31, 2019 and December 31, 2018, the Company is not aware of any legal or financial contractual obligations or financial commitments outside of its loans and borrowings and related party management services agreement.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company has no material undisclosed off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources that are material to investors.

RELATED PARTY TRANSACTIONS

Related parties include officers and employees of the Company that are investors, debt holders and the Company's primary provider of servicing equipment.

Key management personnel

Key employees include executive management with the authority and responsibility for planning, directing and controlling the activities of the Company. The following table presents compensation and benefit expenses of key employees:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Year Ended December 31, 2018
Salaries, guaranteed payments, benefits	$ 119,714	$ 9,675	$ 433,444
Incentive compensation	349,136	-	75,307
	$ 468,850	$ 9,675	$ 508,751

No expenses were incurred for key management personnel from the period of inception (October 9, 2017) through December 31, 2017.

The owner and chief executive of Khrysos acted as the Company's chief technology officer and was paid consulting fees of $51,923 for the year ended December 31, 2018. In January 2019, the owner and chief executive of Khrysos resigned from his position as the Company's chief technology officer to refocus his efforts on Khrysos activities.

Related Party Other and Note Receivable

As of December 31, 2018 and 2017, the Company had an account receivable and a note receivable due from one of the Company's servicing equipment providers, Khrysos, of $30,000 and $600,000, respectively. The $30,000 receivable due from Khrysos at December 31, 2018 consisted of reimbursments for certain marketing expenditures and was paid in March 2019. The $600,000 note balance at December 31, 2017 due from Khrysos had an original maturity date of three months that was amended in February 2018 to September 27, 2018 and bore interest at 3% per annum. The note was provided to assist a related party equipment supplier to purchase equipment to be assembled on behalf of the Company. The note was repaid in April 2018 upon the delivery of extraction equipment to the Company.

Related Party Loans and Borrowings

As of March 31, 2019, December 31, 2018 and 2017, the Company had loans and borrowings, and related interest due to related parties of $1,773,443, $813,000 and $2,535,481, respectively. The following table presents the Company's loans and borrowings, and related interest, from related parties:

	March 31, 2019	December 31, 2018	2017
Archytas:			
Term loan	$ 1,500,000	$ 600,000	$ 1,550,000
Series B debentures	200,000	200,000	-
Accrued interest	73,443	13,000	25,691
	1,773,443	813,000	1,575,691
Member:			
Term loan	-	-	950,000
Accrued interest	-	-	9,790
	-	-	959,790
	$ 1,773,443	$ 813,000	$ 2,535,481

Related Party Transactions and Amounts Due to Related Parties

The following table presents expenses incurred on behalf of the Company and assets purchased from Archytas and Khrysos:

	As of and From the Period Inception (October 9, 2017) through March 31, 2019		
	Archytas	Khrysos	Total
Amounts due to related parties at October 9, 2017	$ -	$ -	$ -
Interest expense	25,691	-	25,691
Operating expenses	78,344	16,479	94,823
Inventory purchases	-	8,641	8,641
Prepaid servicing equipment purchases	-	791,807	791,807
Less payments to related parties	-	(724,000)	(724,000)
Amounts due to related parties at December 31, 2017	$ 104,035	$ 92,927	$ 196,962
Interest expense	137,231	-	137,231
Operating expenses	22,915	35,575	58,490
Inventory purchases	-	291,667	291,667
Prepaid servicing equipment purchases	-	3,259,964	3,259,964
Less payments to related parties	(251,181)	(3,574,479)	(3,825,660)
Amounts due to related parties at December 31, 2018	$ 13,000	$ 105,654	$ 118,654
Interest expense	60,443	-	60,443
Management fee	88,400	-	88,400
Operating expenses	-	11,936	11,936
Prepaid equipment purchases	-	258,845	258,845
Amounts due to related parties at March 31, 2019	$ 161,843	$ 376,435	$ 538,278

Related Party Purchase Commitments

The Company has the option to purchase extraction equipment from a related party vendor, Khrysos, and in the past, did so under mutual exclusivity that required minimum purchases to remain in effect. However, the Company has expanded its range of product offerings to include other vendors in order to provide tailored, end-to-end solutions for a growing, diversified customer base, and accordingly no longer maintains the mutual exclusivity.

Related Party Management Services Agreement

Effective January 2019 the Company entered into a management services agreement with Archytas at a monthly rate of $28,667 and a term of five years, with one year automatic renewals, whereby Archytas will provide day-to-day executive management and support to the Company. In conjunction with entering into this agreement the Company's CEO and CMO terminated their employment agreements with the Company.

<u>*Related Party Sales*</u>

In March 2019, the Company entered into a rental lease agreement with CBD to lease one extraction machine and other ancillary processing equipment to CBD. CBD is a related party to the Company as a result of a shareholder of the Company also being an owner of CBD. As part of this agreement, CBD has paid $100,000 to this related party.

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New standards adopted

IFRS 9, Financial Instruments

IFRS 9 was adopted by the Company beginning January 1, 2018, and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of this standard.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 was adopted by the Company beginning January 1, 2018 and provides requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control-based approach to recognize revenue which is a change from the risk and reward approach under the previous standard, IAS 18. Since the Company was newly formed in October 2017 and had no revenue for period from inception (October 9, 2017) through December 31, 2017, there was no impact to previously reported financial statements upon adoption of this standard.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessor accounting remains relatively unchanged from the previous guidance. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. As of January 1, 2019 the Company had one lease as a lessee and one lease as a lessor. The Company evaluated both leases and concluded there was no impact on its financial statements and related disclosures upon the adoption of this standard.

IFRIC 23, Uncertainty over Income Tax Treatments.

In June 2017 the IASB issued IFRIC 23, "Uncertainty over income tax treatments ("IFRIC 23"), to clarify the accounting of uncertainties in income taxes. The interpretation provides guidance and clarifies the application of recognition and measurement criteria in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning January 1, 2019. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of this standard.

New standards and interpretations to be adopted in future periods

The Company had no additional new IFRS standards adopted that resulted in changes to the Company's accounting policies.

CRITICAL ACCOUNTING ESTIMATES

The Company makes judgements, estimates and assumptions about the future that affect the reported amounts of assets and liabilities, and revenues and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

Depreciation and Amortization of Servicing Equipment and Intangible Asset and Estimate of Useful Lives

Depreciation and amortization of servicing equipment and its intangible asset is dependent upon estimates of useful lives. The Company estimates the useful lives of servicing equipment and its intangible asset based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets.

Long-Lived Assets and Impairment

Long-lived assets, such as servicing equipment and finite intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company estimates its recoverable amount. An impairment loss is recognized to the extent the carrying value exceeds its recoverable amount. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Incentive Compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of awards granted. In estimating fair value, management is required to make certain assumptions and estimates such as the expected term, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Derivative Liabilities

Derivative liabilities are initially recognized at fair value on the date entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognized immediately as a component of other expense (income) in the statements of comprehensive loss.

Compound Financial Instruments

Financial liabilities are initially measured at fair value plus transaction costs directly attributable to its issue.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity component such as conversion option. The equity component is initially recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition financial liabilities are measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company categorizes its financial assets and liabilities measured and reported at fair value in the financial statements on a recurring basis based upon the level of judgments associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs used to determine the fair value of financial assets and liabilities, are as follows:

> Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
> Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
> Level 3: Inputs for the asset or liability that are not based on observable market data.

Each major category of financial assets and liabilities measured at fair value on a recurring basis is categorized based upon the lowest level of significant input to the valuations. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash. The Company does not have significant credit risk with respect to customers. All cash is placed with major U.S. financial institutions. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of sales are transacted with cash.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

Market Risk

Currency Risk

The Company has determined its functional currency to be the U.S. dollar. The operating results and financial position of the Company are reported in U.S. dollars. The Company has minimal financial transactions denominated in currencies other than the U.S. dollar. The Company has no hedging agreements in place with respect to foreign exchange rates.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

SCHEDULE "C"
CARACARA FINANCIALS

(PLEASE SEE ATTACHED)

Caracara Silver Inc.

Consolidated Financial Statements

As at and for the years ended

June 30, 2018 and 2017

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF CARACARA SILVER INC.

We have audited the accompanying consolidated financial statements of Caracara Silver Inc., which comprise the consolidated statements of financial position as at June 30, 2018 and 2017 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Caracara Silver Inc. as at June 30, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
October 23, 2018

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Caracara Silver Inc.
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at June 30,	**2018**	2017
	$	$
Assets		
Current assets		
Cash	**1,121,383**	2,733
Amounts receivable	**14,330**	3,020
Total current assets	**1,135,713**	5,753
Total assets	**1,135,713**	5,753
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(notes 8)*	**114,103**	88,518
Amounts due to related parties *(note 9)*	**44,860**	77,000
Shareholder loan *(note 10)*	**-**	12,841
Promissory note *(note 11)*	**-**	73,260
Total current liabilities	**158,963**	251,619
Total liabilities	**158,963**	251,619
Shareholders' Equity (Deficiency)		
Share capital *(note 12)*	**8,046,137**	7,413,722
Contributed surplus *(note 12)*	**699,705**	-
Deficit	**(7,769,092)**	(7,659,588)
Total shareholders' equity (deficiency)	**976,750**	(245,866)
Total liabilities and shareholders' equity (deficiency)	**1,135,713**	5,753

Going concern *(note 2)*

Approved for issuance on behalf of the Board on October 23, 2018:

"Robert Boaz" — Director

"*Stephen Coates"* — Director

The accompanying notes are an integral part of these consolidated financial statements.

Caracara Silver Inc.
Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

Years ended June 30,	2018	2017
	$	$
Exploration and evaluation income *(note 13)*	**(50,000)**	(49,500)
Administrative expenses		
Consulting and professional fees	**114,252**	12,990
Directors' fees and expenses *(note 9)*	**10,000**	20,000
General and administrative	**4,047**	31,404
Investor relations	**61**	150
Management fees and salaries *(note 9)*	**36,500**	36,000
Shareholder and public company expenses	**33,200**	18,174
Total administrative expenses	**198,060**	118,718
Total expenses	**(148,060)**	(69,218)
Foreign exchange gain	**2,196**	1,117
Gain on retirement of promissory note *(note 11)*	**19,860**	-
Gain on forgiveness of accounts payable *(note 8)*	**23,868**	-
Interest	**(7,368)**	(7,824)
Net loss and comprehensive loss for the year	**(109,504)**	(75,925)
Basic and fully diluted loss per share	**(0.01)**	(0.01)
Weighted average number of common shares outstanding	**8,094,933**	5,189,584

The accompanying notes are an integral part of these consolidated financial statements.

Caracara Silver Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
Years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

	Share Capital				
	Number of shares *(note 12)*	Amount	Contributes surplus	Deficit	Total
		$	$	$	$
Balance at June 30, 2016	5,189,568	7,413,722	1,227,568	(8,811,231)	(169,941)
Expiry of options	-	-	(1,227,568)	1,227,568	-
Net loss for the year	-	-	-	(75,925)	(75,925)
Balance at June 30, 2017	5,189,568	7,413,722	-	(7,659,588)	(245,866)
Issuance of shares for cash	**19,213,333**	**1,366,000**	**-**	**-**	**1,366,000**
Share issue costs	**-**	**(33,880)**	**-**	**-**	**(33,880)**
Fair value of issued warrants	**-**	**(642,786)**	**642,786**	**-**	**-**
Fair value of issued finders' units	**-**	**(56,919)**	**56,919**	**-**	**-**
Net loss for the year	**-**	**-**	**-**	**(109,504)**	**(109,504)**
Balance at June 30, 2018	**24,402,901**	**8,046,137**	**699,705**	**(7,769,092)**	**976,750**

The accompanying notes are an integral part of these consolidated financial statements.

Caracara Silver Inc.
Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Years ended June 30,	2018	2017
	$	$
Operating activities		
Net loss	**(109,504)**	(75,925)
Adjustment to reconcile net loss to cash flow from operating activities:		
Interest *(note 11)*	**6,600**	7,824
Gain on promissory note retirement *(note 11)*	**(19,860)**	-
Gain on forgiveness of accounts payable *(note 8)*	**(23,868)**	-
Net change in non-cash working capital items:		
Amounts receivable	**(11,310)**	(1,395)
Accounts payable and accrued liabilities	**49,453**	1,506
Shareholder loan *(note 10)*	**(12,841)**	55,500
Cash used for operating activities	**(121,330)**	(12,490)
Financing activities		
Shares issued for cash (net of issuance costs)	**1,332,120**	-
Proceeds from (repayment of) shareholder loan *(note 10)*	**(32,140)**	12,217
Repayment of promissory note *(note 11)*	**(60,000)**	-
Cash provided from financing activities	**1,239,980**	12,217
Increase (decrease) in cash at end of year	**1,118,650**	(273)
Cash at beginning of year	**2,733**	3,006
Cash at end of year	**1,121,383**	2,733

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information

Caracara Silver Inc. (the "Company" or "Caracara") was incorporated under the laws of British Columbia on December 3, 2009.

The principal business activity of the Company is the acquisition, exploration and development of mineral properties in Peru. The Company's main and registered office is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, Canada, M5H 1T1.

As the Company has optioned its only property, it does not meet the continued listing requirements of the TSX Venture Exchange ("TSXV"). As a result, as of October 17, 2016, the Company has migrated to the NEX market, a sub-board of the TSXV, and traded under the symbol "CSV.H". On April 30, 2018, the Company completed a 1-for-10 share consolidation (note 12) and changed its symbol to "SILV.H".

2. Continuance of operations and going concern

These annual consolidated financial statements (the "Consolidated Financial Statements") are prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company had working capital of $976,750 as at June 30, 2018 (2017 – deficit of $245,866), and an accumulated deficit of $7,769,092 (2017 - $7,659,588).

On August 13, 2018, the Company and Xtraction Services, Inc. ("Xtraction") entered into a binding letter of intent setting out the conditions of a proposed business combination between Caracara and Xtraction (the "Transaction") pursuant to which the Company will acquire all of the issued and outstanding common shares of Xtraction. It is currently contemplated that the Transaction will be structured as a "reverse triangular merger" between Xtraction, Caracara and a wholly-owned subsidiary of Caracara to be incorporated under the laws of Delaware.

Upon completion of the Transaction, the parties intend that the Company's shares will be delisted from the TSXV and listed on the Canadian Securities Exchange or the NEO Exchange. The Transaction is subject to TSXV and shareholder approval of both Xtraction and Caracara shareholders.

Should the Transaction not complete, the ability of the Company to continue as a going concern and meet its commitments as they become due, is dependent on the Company's ability to attain profitable operations and/or obtain the necessary financing. Management continues to assess alternatives to raising additional funding, which may include additional equity offerings. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management will be required to curtail even limited Company operations. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The business of mining exploration involves a high degree of risk and there is no assurance that current or future exploration projects will result in future profitable mining operations. The Company has no source of revenue, but continues to have cash requirements to meet its administrative overhead and pay its debts and liabilities.

The Consolidated Financial Statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern, which could be material.

3. Basis of preparation

3.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Consolidated Financial Statements were approved for issuance by the Company's Board of Directors on October 23, 2018.

3.2 Basis of presentation

The Consolidated Financial Statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in *note 4*. The Consolidated Financial Statements are presented in Canadian dollars, the Company's functional currency.

3.3 Basis of consolidation

Subsidiaries are entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date on which control ceases.

The Consolidated Financial Statements include the financial statements of the Company and its wholly owned subsidiaries, Solex del Peru S.A.C. ("Solex") incorporated in Peru and CSI Princesa Inc. incorporated in Ontario, Canada. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of operations and comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intercompany transactions, balances, income and expenses are eliminated on consolidation.

3.4 Adoption of new and revised standards and interpretations

IFRS 9 *Financial Instruments*

Issued by IASB	July 2014
Effective for the Company's annual period beginning	July 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

(Expressed in Canadian dollars)

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- **Classification and measurement of financial assets.** Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- **Classification and measurement of financial liabilities.** When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- **Impairment of financial assets.** An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- **Hedge accounting:** Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The Company has assessed the implications of IFRS 9 and does not expect there to be a substantial impact to the Consolidated Financial Statements.

IFRS 15 *Revenue from Contracts with Customers*

Issued by IASB	May 2014
Effective for the Company's annual period beginning	July 1, 2018

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

Revenue is recognized based on a five-step model:
1. Identify the contract with customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) the performance obligations are satisfied.

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.
The Company has assessed the implications of IFRS 15 and does not expect there to be a substantial impact to the Consolidated Financial Statements.

IFRS 16 *Leases*

Issued by IASB	January 2016
Effective for the Company's annual period beginning	July 1, 2019

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers.*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The Company is currently assessing the implications IFRS 16 will have on the Consolidated Financial Statements.

4. Summary of significant accounting policies

4.1 Mineral properties

All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment (“PPE”). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

On the disposal of interest in connection with the option agreement (*note 13*), the Company does not recognize expenses related to the exploration and evaluation performed on the property by the optionee. In addition, the cash or shares consideration received directly from the optionee is credited against exploration and evaluation expenditures in profit or loss.

4.2 Decommissioning, restoration and similar liabilities ("asset retirement obligation" or "ARO")

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

4.3 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). Where equity instruments are granted to employees or others providing similar services, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

In situations where equity instruments are issued to non-employees, they are recorded at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of goods or services cannot be reliably measured), and are recorded at the date the goods or services are received.

For those equity-settled awards that expire unexercised after vesting, the recorded value is transferred to deficit.

4.4 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the consolidated statement of financial position.

Deferred income tax

Deferred income tax is provided using the asset and liability method on temporary differences at the date of the consolidated statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the consolidated statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the consolidated statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the consolidated statement of financial position.

Deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of operations and comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

4.5 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the years ended June 30, 2018 and 2017, all the outstanding stock options and warrants were anti-dilutive.

4.6 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost. The Company has no financial assets classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss), except for losses in value that are considered other than temporary. The Company has no financial assets classified as available-for-sale.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

4.7 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities, amounts due to related parties, shareholder loan and promissory note are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through profit or loss. The Company has not classified any financial liabilities as FVTPL.

4.8 Impairment of financial assets

The Company assesses at each date of the consolidated statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

4.9 Impairment of non-financial assets

At each date of the consolidated statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

4.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

4.11 Related-party transactions and balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence and may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4.12 Foreign currency transactions

Functional and presentation currency

Items included in the Consolidated Financial Statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of operations and comprehensive loss.

4.13 Unit offerings

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "unit") and entitle the warrant holder to exercise the warrants for a stated price for a stated number of common shares in the Company. The fair value of the components of the units sold are measured using the relative fair value approach, based on the calculated fair value of the stand-alone shares through reference to the quoted market price at the completion of the financing and the fair value of the stand-alone warrant, using the Black-Scholes option pricing model. The fair value of units exercisable into common shares and warrants are estimated using the Geske option model. Consideration received on the exercise of warrants is recorded as share capital and the recorded amount to reserve is transferred to share capital.

4.14 Significant accounting judgments and estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the Consolidated Financial Statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The going concern assumption

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- Recognition of deferred tax assets and liabilities

In assessing the probability of realizing income tax assets and liabilities, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

- The determination of the Company's functional currency

The functional currency of the Company is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

- The determination of the fair value of derivative instruments (warrants, units and finders' units)

As noted above, the Company estimates the fair value of derivative instruments for any issued share purchase warrants and units using the Black-Scholes option pricing model and the fair value of compound instruments (such as finders' units exercisable into a common share and share purchase warrant) using the Geske option pricing model. Use of both of these models requires management to make subjective assumptions and use variables that it deems appropriate in the circumstances, including expected price volatility, expected life, interest rates and forfeiture rates. Changes in the inputted assumptions and variables could have a material affect on the estimated fair value and the Company's contributed surplus.

5. Capital management

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts and deficit. The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The Company's only property has been optioned, and as a result, the Company currently has no source of operating cash flow, other than the annual option receipt (note 13). The Company intends to raise additional funds as and when required to purchase any new projects. There is no assurance that the

Company will be able to raise additional funds on reasonable terms. The ability of the Company to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended June 30, 2018. The Company is not subject to externally imposed capital restrictions.

6. Financial instruments

Fair value

As at June 30, 2018 and 2017, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

i) Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is attributable to various financial instruments, as noted below. The credit risk is limited to the carrying value amount carried on the statements of financial position.

Cash is held with a major Canadian bank and therefore the risk of loss is minimal.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at June 30, 2018, the Company had working capital of $976,750 (2017 – deficit of $245,866). While management believes the Company has sufficient cash to meet its current obligations, it will be required to raise additional funds for any newly-proposed business opportunities. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. In addition, in order to meet its longer-term working capital requirements, property exploration expenditures or other business opportunities the Company intends on securing further financing to ensure that those obligations are properly discharged.

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

a. Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term nature of its monetary assets and liabilities. The promissory note was fully discharged during the year ended June 30, 2018.

b. Currency risk

Although the Company's operations are conducted in Canadian dollars, it has entered into contracts and/or agreements that require payment in United States dollars or other foreign currencies. Management believes that foreign currency risk derived from currency conversions is negligible, and therefore, does not hedge its foreign currency risk.

c. Price risk

The Company is not subject to price risk.

7. Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a one-year period.

The Company's funds are kept in Canadian dollars and US dollars at major Canadian and Peruvian financial institutions. As at June 30, 2018 and 2017, the Company's exposure to foreign currency balances is as follows:

Account	**Foreign Currency**	**Exposure ($CDN)**	
As at June 30,		**2018**	2017
Cash	US dollar	**182,245**	40
Accounts payable	US dollar	**(28,459)**	(52,433)

The Company believes that a change of 10% in foreign exchange rates would cause consolidated net loss and comprehensive loss to increase/decrease by approximately $15,400 for the year ended June 30, 2018 (2017 - $5,200).

(Expressed in Canadian dollars)

8. Accounts payable and accrued liabilities

Accounts payable of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and amounts payable for operating and financing activities. The usual credit period for trade purchases is between 30 to 90 days.

The following is a breakdown analysis of the accounts payable and accrued liabilities:

As at June 30,	2018	2017
	$	$
Suppliers	**84,085**	72,018
Accrued liabilities	**30,018**	16,500
Total accounts payable and accrued liabilities	**114,103**	88,518

During the year ended June 30, 2018, the Company settled with some of its Peruvian accounts payable on a discounted basis. The resulting gain on forgiveness' of accounts payable of $23,868, has been recorded and is shown on the consolidated statements of operations and comprehensive loss.

9. Related party transactions and key management compensation

The Consolidated Financial Statements include transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. The Company incurred the following fees and expenses in the normal course of operations in connection to officers and directors, or companies controlled by them, as follows:

Years ended June 30,	**2018**	2017
	$	$
Management fees	**36,500**	36,000
Directors' fees and expenses	**10,000**	20,000

For the year ended June 30, 2018, $36,500 (2017 - $36,000) of management fees was paid or payable to a company controlled by the Company's CEO and CFO.

As at June 30, 2018, amounts owing to directors is $30,000 (2017 - $20,000) and to a company controlled by the Company's CEO and CFO is $14,860 (2017 - $57,000). The amounts owing are unsecured, interest-free and have no fixed terms of repayment. Subsequent to June 30, 2018, all amounts due to related parties were paid in full.

10. Loan from shareholder

During the year ended June 30, 2017, the Company was provided a loan from a shareholder in the amount of $12,217. The loan was due on demand, unsecured and bore interest at 15% per annum. During the year ended June 30, 2018, the loan of $13,609 (including accrued interest of $1,392), was paid in full. Interest on the loan amounted to $768 (2017 - $624), with such amount included in the consolidated statements of operations and comprehensive loss.

(Expressed in Canadian dollars)

11. Promissory note

The following is a continuity of the promissory note payable (the "Note") to a third party, which bore interest at a rate of 12% per annum and was retired during the year ended June 30, 2018.

	$
Advanced on August 28, 2015	60,000
Accrued interest to June 30, 2017	13,260
Balance, June 30, 2017	73,260
Accrued interest for the year ended June 30, 2018	**6,600**
Gain on retirement of Note	**(19,860)**
Retirement amount paid	**(60,000)**
Balance, June 30, 2018	**-**

12. Share capital

Authorized share capital consists of an unlimited number of common shares, without par value.

Consolidation

On April 30, 2018, the Company completed a 1-for-10 share consolidation (the "Consolidation"). Outstanding shares and weighted-average outstanding shares, options and warrants have been adjusted to account for the Consolidation.

Year ended June 30, 2018

In June 2018, the Company completed a private placement issuing 16,213,333 units (each a "Unit") at $0.075 per Unit, raising gross proceeds of $1,216,000. Each Unit consisted of one common share and one share-purchase warrant (a "Warrant"). The Warrants are exercisable into one common share at a price of $0.15 each, until maturity on June 10, 2019. In addition, the Company paid cash finders fees of $33,881 and issued 451,743 finders' units (each a "Finder Unit"). Each Finder Unit is exercisable for $0.10 into one common share and finders'-share warrant (a "Finder-Share Warrant"). Each Finder-Share Warrant is exercisable for $0.15 into one common share until expiry on June 10, 2019.

The fair value of $569,419 for the warrants issued was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.90%, expected volatility of 319.57%, expected life of one year, dividend rate of nil and share price at the issuance date of $0.125. A fair value of $56,919 for the Finders' Units issued was estimated using the Geske option pricing model with the following assumptions: Risk-free interest rate of 1.90%, expected volatility of 186.34%, dividend rate of nil, share price at the issuance date of $0.125, exercise price of the compound option of $0.10, exercise price of the underlying option of $nil, an expected life of the compound option of 0.5 years and expected life of the underlying option of one year.

In November 2017, the Company completed a private placement issuing 3,000,000 Units at $0.05 per Unit, raising gross and net proceeds of $150,000. Each Unit consisted of one common share and one Warrant. Each Warrants is exercisable into one common share at a price of $0.05, until expiry on November 3, 2018.

(Expressed in Canadian dollars)

A fair value of $73,366 for the Warrants issued was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.43%, expected volatility of 373.9%, expected life of one year, dividend rate of nil and share price at the issuance date of $0.10.

Year ended June 30, 2017

The Company did not issue any common shares during the years ended June 30, 2017.

Options

Caracara has a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors, employees and consultants. The plan allows for the issuance of up to 10% of the issued and outstanding common shares. As at June 30, 2018, the Company had 2,440,290 (2017 – 518,584, adjusted for the Consolidation) options available for issuance.

During the year ended June 30, 2018, nil (2017 - 280,000) options with a fair value of $nil (2017 - $1,227,568), expired unexercised.

Warrants

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price ($)
Balance as at June 30, 2017	-	-
Warrants issued	19,213,333	0.13
Balance as at June 30, 2018	19,213,333	0.13

As at June 30, 2018, the Company had the following warrants outstanding:

Date of Expiry	Type	Exercise Price ($)	Number	Weighted Average Remaining Life in Years
November 3, 2018	Warrant	0.05	3,000,000	0.35
June 10, 2019	Warrant	0.15	16,213,333	0.95
Total		0.13	19,213,333	0.85

(Expressed in Canadian dollars)

13. Exploration and evaluation expenditures (income)

The evaluation and exploration expenses for the Company are broken down as follows:

	Year ended June 30, 2018	Year ended June 30, 2017	Cumulative to June 30, 2018
	$	$	$
Acquisition costs	**-**	-	1,963,104
Exploration costs:			
Drilling	**-**	-	426,185
Environmental and community relations	**-**	-	233,416
Assaying and sampling	**-**	-	111,809
Field and camp supplies	**-**	-	567,215
Consulting and professional fees	**-**	-	594,495
General exploration expenditures	**-**	500	1,769,802
Total exploration costs	**-**	500	3,702,922
Recovery due to option agreement	**(50,000)[1]**	(50,000)[1]	(358,968)
Total exploration and evaluation expenditures (income)	**(50,000)**	(49,500)	5,307,058

[1]Payments received pursuant to the Option Agreement, as defined below.

Mineral projects

On August 31, 2016 (the "Option Date"), the Company executed an option agreement (the "Option Agreement") with Alcon Exploration Corp. ("Alcon"), whereby Alcon has the option to earn a 100% interest in the Company's Princesa silver concessions located in Peru (the "Property").

Alcon can exercise the option by paying Caracara the following amounts:

(a) An aggregate sum of $250,000 as follows:

(i) $50,000 (the "Initial Payment") within seven business days of the approval of the Option Agreement by the TSXV (the "Approval Date") (received);

(ii) $50,000 on or before the first anniversary of the Approval Date (the "First Anniversary Payment") (received); and

(iii) $150,000 on or before the second anniversary of the Approval Date (the Second Anniversary Payment"); and

(Expressed in Canadian dollars)

(b) 2,000,000 common shares of the capital of Caracara upon closing of a going-public transaction by the Optionor, in accordance with the Option Agreement.

The Initial Payment and the First Anniversary Payment have been recorded as a reduction to exploration expenditures during the year ended June 30, 2018 and 2017.

Contingency

During the year ended June 30, 2017, Solex appealed an order by the Organismo de Evaluaciaon y Fascalizacion Ambiental ("OEFA") (the local Peruvian environmental authority) to pay a fine, the amount of which was not determined, but could amount to approximately US$8,000, for failing to make proper restoration to one of its old projects (the "Marcia" project). Although Solex completed the restoration pursuant to the closure plan, the OEFA contends that certain areas within Marcia, were not restored as original. In November 2016, the OEFA denied Solex's appeal and confirmed Solex as a repeat offender, but did not establish any fine. The Company believes that any fine levied will be reduced to a prescribed de minimis amount. As the outcome cannot be determined at this time, no accrual has been made in these Consolidated Financial Statements.

14. Segmented information

As at June 30, 2018, the Company has only one operating and geographic segment, the corporate administration of the Company from Canada. As such, amounts disclosed in the Consolidated Financial Statements also represent the single operating and geographic reporting segments.

15. Income taxes

A reconciliation of income taxes computed at Canadian statutory rates to the reported income taxes for the years ended June 30, 2018 and 2017 is provided as follows:

	2018	2017
	$	$
Loss for the year	**(109,504)**	(75,925)
Canadian statutory tax rate	**26.5%**	26%
Income tax recovery computed at the statutory rate	**(29,018)**	(19,741)
Foreign tax rates different from statutory rates	**(431)**	2,313
Effect of change in tax rate	**(34,030)**	105,839
Change in timing differences	**(4,415)**	1,249,885
Impact of foreign exchange on tax assets and liabilities	**-**	(13,950)
Losses overprovided in prior years	**-**	694
Unused tax offsets not recognized as tax assets	**67,894**	(1,325,040)
	-	-

(Expressed in Canadian dollars)

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable sufficient taxable income will be available to utilize deferred tax assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts as at June 30, 2018 and 2017:

	2018	2017
	$	$
Non-capital losses carried forward	**4,324,000**	4,147,000
Exploration and evaluation assets	**11,830**	11,830
Share issue costs	**27,100**	-
Unrecognized deductible temporary differences	**4,362,930**	4,158,830

The Company has accumulated non-capital losses for Canadian income tax purposes of approximately $**3,446,000** and net operating loss for Peruvian tax purposes of approximately $**877,000** available for carry-forward to reduce future years' taxable income.

Non-capital losses expire as follows:

	$
Carried forward indefinitely	877,000
2030	2,000
2031	140,000
2032	1,027,000
2033	765,000
2034	717,000
2035	486,000
2036	172,000
2037	50,000
2038	**88,000**
Total non-capital loss carry-forwards	**4,324,000**

Caracara Silver Inc.

Consolidated Financial Statements

As at and for the years ended

June 30, 2017 and 2016

(Expressed in Canadian dollars)

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF CARACARA SILVER INC.

We have audited the accompanying financial statements of Caracara Silver Inc., which comprise the consolidated statements of financial position as at June 30, 2017 and 2016 and the consolidated statements of operations and comprehensive loss, changes in deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Caracara Silver Inc. as at June 30, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
October 19, 2017

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Caracara Silver Inc.
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at June 30,	2017	2016
	$	$
Assets		
Current assets		
Cash	**2,733**	3,006
Amounts receivable	**3,020**	1,625
Total current assets	**5,753**	4,631
Total assets	**5,753**	4,631
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(notes 8 and 9)*	**88,518**	87,012
Amounts due to related parties *(note 9)*	**77,000**	21,500
Shareholder loan *(note 10)*	**12,841**	-
Promissory note *(note 11)*	**73,260**	66,060
Total current liabilities	**251,619**	174,572
Total liabilities	**251,619**	174,572
Deficiency		
Share capital *(note 12)*	**7,413,722**	7,413,722
Reserve for share-based payments *(note 12)*	**-**	1,227,568
Deficit	**(7,659,588)**	(8,811,231)
Total deficiency	**(245,866)**	(169,941)
Total liabilities and deficiency	**5,753**	4,631

Going concern *(note 2)*
Events after the reporting date *(note 16)*

Approved for issuance on behalf of the Board on October 19, 2017:

"Robert Boaz"	*"Stephen Coates"*
Director	Director

The accompanying notes are an integral part of these consolidated financial statements.

Caracara Silver Inc.
Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

Years ended June 30,	2017	2016
	$	$
Exploration and evaluation expenditures *(note 13)*	**(49,500)**	42,157
Administrative expenses		
Consulting and professional fees	**12,990**	21,393
Directors' fees and expenses *(note 9)*	**20,000**	-
General and administrative	**31,404**	11,670
Investor relations	**150**	741
Management fees and salaries *(note 9)*	**36,000**	34,000
Shareholder and public company expenses	**18,174**	17,079
Total administrative expenses	**118,718**	84,883
Total expenses	**(69,218)**	(127,040)
Foreign exchange gain	**1,117**	1,026
Interest	**(7,824)**	(6,060)
Net loss and comprehensive loss for year	**(75,925)**	(132,074)
Basic and fully diluted loss per share	**(0.00)**	(0.00)
Weighted average number of common shares outstanding	**51,895,835**	51,895,835

The accompanying notes are an integral part of these consolidated financial statements.

Caracara Silver Inc.
Consolidated Statements of Changes in Deficiency
Years ended June 30, 2017 and 2016

(Expressed in Canadian dollars)

	Share Capital				
	Number of shares	**Amount**	**Share-based payments**	**Deficit**	**Total**
		$	**$**	**$**	**$**
Balance at June 30, 2015	51,895,835	7,413,722	1,227,568	(8,679,157)	(37,867)
Net loss for the year	-	-	-	(132,074)	(132,074)
Balance at June 30, 2016	51,895,835	7,413,722	1,227,568	(8,811,231)	(169,941)
Expiry of options	**-**	**-**	**(1,227,568)**	**1,227,568**	**-**
Net loss for the year	**-**	**-**	**-**	**(75,925)**	**(75,925)**
Balance at June 30, 2017	**51,895,835**	**7,413,722**	**-**	**(7,659,588)**	**(245,866)**

The accompanying notes are an integral part of these consolidated financial statements.

Caracara Silver Inc.
Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Years ended June 30,	2017	2016
	$	$
Operating activities		
Net loss	**(75,925)**	(132,074)
Adjustment to reconcile net loss to cash flow from operating activities:		
Interest *(note 11)*	**7,824**	6,060
Net change in non-cash working capital items:		
Amounts receivable	**(1,395)**	61
Accounts payable and accrued liabilities	**1,506**	38,184
Amounts due to related parties *(note 9)*	**55,500**	21,500
Cash used for operating activities	**(12,490)**	(66,269)
Financing activities		
Proceeds from shareholder loan *(note 10)*	**12,217**	-
Proceeds from promissory note *(note 11)*	**-**	60,000
Cash provided from financing activities	**12,217**	60,000
Decrease in cash at end of year	**(273)**	(6,269)
Cash at beginning of year	**3,006**	9,275
Cash at end of year	**2,733**	3,006

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information

Caracara Silver Inc. (the "Company" or "Caracara") was incorporated under the laws of British Columbia on December 3, 2009.

The principal business activity of the Company is the acquisition, exploration and development of mineral properties in Peru. The Company's main and registered office is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, Canada, M5H 1T1.

At the annual general and special meeting of its shareholders held on August 29, 2016, the shareholders of the Company approved, among other items, amending the Company's articles to allow the directors of the Company to approve the subdivision or consolidation of any or all of its shares without further shareholder approval. In addition, the shareholders also approved the option agreement for the Company's Princesa-Pilunani mineral concessions (*note 13*).

As the Company has optioned its only property, it does not meet the continued listing requirements of the TSX Venture Exchange ("TSXV"). As a result, as of October 17, 2016, the Company has migrated to the NEX market, a sub-board of the TSXV, and trades under the symbol "CSV.H"

2. Continuance of operations and going concern

These annual consolidated financial statements (the "Financial Statements") are prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company had a working capital deficit of $245,866 as at June 30, 2017 (2016 - $169,941), and an accumulated deficit of $7,659,588 (2016 - $8,811,231).

The ability of the Company to continue as a going concern and meet its commitments as they become due, including exploration and development of its mineral properties, is dependent on the Company's ability to attain profitable operations and/or obtain the necessary financing. Management is currently assessing alternatives to raising additional funding, which may include additional equity offerings. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management will be required to curtail even limited Company operations. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The business of mining exploration involves a high degree of risk and there is no assurance that current or future exploration projects will result in future profitable mining operations. The Company has no source of revenue, but continues to have cash requirements to meet its administrative overhead and pay its debts and liabilities.

The Financial Statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern, which could be material.

3. Basis of preparation

3.1 Statement of compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Financial Statements were approved for issuance by the Company's Board of Directors on October 19, 2017.

3.2 Basis of presentation

The Financial Statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in *note 4*. The Financial Statements are presented in Canadian dollars, the Company's functional currency.

3.3 Basis of consolidation

Subsidiaries are entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date on which control ceases.

The Financial Statements include the financial statements of the Company and its wholly owned subsidiaries, Solex del Peru S.A.C. ("Solex") incorporated in Peru and CSI Princesa Inc. incorporated in Ontario, Canada. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intercompany transactions, balances, income and expenses are eliminated on consolidation.

3.4 Adoption of new and revised standards and interpretations

IFRS 9 *Financial Instruments*

Issued by IASB	July 2014
Effective for the Company's annual period beginning	July 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- **Classification and measurement of financial assets.** Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- **Classification and measurement of financial liabilities.** When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

(Expressed in Canadian dollars)

- **Impairment of financial assets.** An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at “amortized cost” or “fair value through other comprehensive income”, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- **Hedge accounting:** Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The Company is currently assessing the implications IFRS 9 will have on the Financial Statements.

IFRS 15 *Revenue from Contracts with Customers*

Issued by IASB	May 2014
Effective for the Company’s annual period beginning	July 1, 2018

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

Revenue is recognized based on a five-step model:
1. Identify the contract with customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) the performance obligations are satisfied.

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Company is currently assessing the implications IFRS 15 will have on the Financial Statements.

IFRS 16 *Leases*

Issued by IASB	January 2016
Effective for the Company's annual period beginning	July 1, 2019

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers.*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The Company is currently assessing the implications IFRS 16 will have on the Financial Statements.

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Issued by IASB	January 2016
Effective for the Company's annual period beginning	July 1, 2017

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Company is currently assessing the implications Amendments to IAS 7 will have on the Financial Statements.

4. Summary of significant accounting policies

4.1 Mineral properties

All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment (“PPE”). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

On the disposal of interest in connection with the option agreement (*note 13*), the Company does not recognize expenses related to the exploration and evaluation performed on the property by the optionee. In addition, the cash or shares consideration received directly from the optionee is credited against exploration and evaluation expenditures in profit or loss.

4.2 Decommissioning, restoration and similar liabilities ("asset retirement obligation" or "ARO")

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

4.3 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). Where equity instruments are granted to employees or others providing similar services, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

In situations where equity instruments are issued to non-employees, they are recorded at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of goods or services cannot be reliably measured), and are recorded at the date the goods or services are received.

For those equity-settled awards that expire unexercised after vesting, the recorded value is transferred to deficit.

4.4 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the consolidated statement of financial position.

Deferred income tax

Deferred income tax is provided using the asset and liability method on temporary differences at the date of the consolidated statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the consolidated statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the consolidated statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the consolidated statement of financial position.

Deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of operations and comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

4.5 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the years ended June 30, 2017 and 2016, all the outstanding stock options and warrants were anti-dilutive.

4.6 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost. The Company has no financial assets classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss), except for losses in value that are considered other than temporary. The Company has no financial assets classified as available-for-sale.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

4.7 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities, amounts due to related parties, shareholder loan and promissory note are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through profit or loss. The Company has not classified any financial liabilities as FVTPL.

4.8 Impairment of financial assets

The Company assesses at each date of the consolidated statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

4.9 Impairment of non-financial assets

At each date of the consolidated statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

4.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

4.11 Related-party transactions and balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence and may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4.12 Foreign currency transactions

Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of operations and comprehensive loss.

4.13 Significant accounting judgments and estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the Financial Statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The going concern assumption

The assessment of the Company’s ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- Recognition of deferred tax assets and liabilities

In assessing the probability of realizing income tax assets and liabilities, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

- The determination of the Company's functional currency

The functional currency of the Company is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

5. Capital management

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts and deficit. The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The Company currently has no source of operating cash flow. The Company intends to raise additional funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The ability of the Company to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions, as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended June 30, 2017. The Company is not subject to externally imposed capital restrictions.

6. Financial instruments

Fair value

As at June 30, 2017 and 2016, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

i) Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is attributable to various financial instruments, as noted below. The credit risk is limited to the carrying value amount carried on the statements of financial position.

Cash is held with a major Canadian bank and therefore the risk of loss is minimal.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at June 30, 2017, the Company had a working capital deficit of $245,866 (2016 - $169,941), and accordingly, does not have sufficient cash to meet its current obligations. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. In addition, in order to meet its longer term working capital requirements and property exploration expenditures, the Company intends on securing further financing to ensure that those obligations are properly discharged.

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

a. Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term nature of its monetary assets and liabilities. The promissory note is not exposed to interest rate risk as it is at a fixed rate.

b. Currency risk

Although the Company's operations are conducted in Canadian dollars, it has entered into contracts and/or agreements that require payment in United States dollars or Peruvian nuevos soles. Management believes that foreign currency risk derived from currency conversions is negligible, and therefore, does not hedge its foreign currency risk.

c. Price risk

The Company is not subject to price risk.

7. Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a one-year period.

The Company's funds are kept in Canadian dollars and US dollars at major Canadian and Peruvian financial institutions. As at June 30, 2017 and 2016, the Company's exposure to foreign currency balances is as follows:

Account	**Foreign Currency**	**Exposure ($CDN)**	
		2017	2016
Cash	US dollar	**40**	1,797
Accounts payable	US dollar	**(52,433)**	(30,378)

The Company believes that a change of 10% in foreign exchange rates would cause consolidated net loss and comprehensive loss to increase/decrease by approximately $5,200 for the year ended June 30, 2017 (2016 - $3,000).

8. Accounts payable and accrued liabilities

Accounts payable of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and amounts payable for operating and financing activities. The usual credit period for trade purchases is between 30 to 90 days.

The following is a breakdown analysis of the accounts payable and accrued liabilities:

As at June 30,	**2017**	2016
	$	$
Suppliers	**72,018**	30,378
Accrued liabilities	**16,500**	17,500
Administrative and personnel *(note 9)*	**-**	39,134
Total accounts payable and accrued liabilities	**88,518**	87,012

9. Related party transactions and key management compensation

The Financial Statements include transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. The Company incurred the following fees and expenses in the normal course of operations in connection to officers and directors, or companies controlled by them, as follows:

Years ended June 30,	**2017**	2016
	$	$
Management fees	**36,000**	34,000
Directors' fees and expenses	**20,000**	-

For the year ended June 30, 2017, $36,000 (2016 - $34,000) of management fees was paid or payable to a company controlled by the Company's CEO and CFO.

As at June 30, 2017, amounts owing to directors is $20,000 (2016 - $18,000) and to a company controlled by the Company's CEO and CFO is $57,000 (2016 - $27,500), of which $nil (2016 - $3,500) is related to a demand loan payable and $57,000 (2016 - $24,000) is related to the administration and personnel fees payable. The amounts owing are unsecured, interest-free and have no fixed terms of repayment.

(Expressed in Canadian dollars)

10. Loan from shareholder

During the year ended June 30, 2017, the Company was provided a loan from a shareholder in the amount of $12,217 (2016 - $nil). The loan is due on demand, unsecured and bears interest at 15% annum. During the year-ended June 30, 2017, accrued interest on the loan amounted to $624 (2016 - $nil), with such amount included in the statements of loss and comprehensive loss.

11. Promissory note

The following is a continuity of the promissory note payable (the “Note”), which bears interest at a rate of 12% per annum:

	$
Advanced on August 28, 2015	60,000
Accrued interest to June 30, 2016	6,060
Balance, June 30, 2016	66,060
Accrued interest for the year ended June 30, 2017	**7,200**
Balance, June 30, 2017	**73,260**

The Note plus any accrued and unpaid interest will become due and payable in full upon the completion of any private placement completed by the Company.

12. Share capital

Authorized share capital consists of an unlimited number of common shares, without par value. The Company did not issue any common shares during the years ended June 30, 2017 and 2016.

Options

Caracara has a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors, employees and consultants. The plan allows for the issuance of up to 10% of the issued and outstanding common shares. As at June 30, 2017, the Company had 5,189,584 (2016 - 2,389,583) options available for issuance.

During the year ended June 30, 2017, 2,800,000 options with a fair value of $1,227,568, expired unexercised.

During the year ended June 30, 2016, no options expired.

(Expressed in Canadian dollars)

The following table provides additional information about outstanding stock options at June 30, 2017 and 2016:

2017			2016			
No. of Options Outstanding	**Remaining Life (Years)**	**Exercise Price ($)**	Expiry Date	No. of Options Outstanding	Remaining Life (Years)	Exercise Price ($)
-	**-**	**-**	20-Sep-16	2,800,000	0.2	0.50

13. Exploration and evaluation expenditures

The evaluation and exploration expenses for the Company are broken down as follows:

	Year ended June 30, 2017	Year ended June 30, 2016	Cumulative to June 30, 2017
	$	$	$
Acquisition costs	**-**	-	1,963,104
Exploration costs:			
Drilling	**-**	-	426,185
Environmental and community relations	**-**	-	233,416
Assaying and sampling	**-**	-	111,809
Field and camp supplies	**-**	-	567,215
Consulting and professional fees	**-**	-	594,495
General exploration expenditures	**500**	42,157	1,769,802
Total exploration costs	**-**	42,157	3,702,922
Recovery due to option agreement	**(50,000)[1]**	-	(308,968)
Total exploration and evaluation expenditures	**(49,500)**	42,157	5,356,558

[1]Below-noted payment received upon execution of the Option Agreement, as defined below.

Mineral projects

On August 31, 2016 (the “Option Date”), the Company executed an option agreement (the “Option Agreement”) with Alcon Exploration Corp. (“Alcon”), whereby Alcon has the option to earn a 100% interest in the Company’s Princesa silver concessions located in Peru (the “Property”).

Alcon can exercise the option by paying Caracara the following amounts:

(a) An aggregate sum of $250,000 as follows:

(i) $50,000 (the “Initial Payment”) within seven business days of the approval of the Option Agreement by the TSXV (the “Approval Date”) (received);

(ii) $50,000 on or before the first anniversary of the Approval Date (the "First Anniversary Payment") (received, see note 16(ii)); and

(iii) $150,000 on or before the second anniversary of the Approval Date; and

(b) 2,000,000 common shares of the capital of Caracara upon closing of a going-public transaction by the Optionor, in accordance with the Option Agreement

The Initial Payment has been recorded as a reduction to exploration expenditures during the year ended June 30, 2017.

Contingency

During the year ended June 30, 2017, Solex appealed an order by the Organismo de Evaluaciaon y Fascalizacion Ambiental ("OEFA") (the local Peruvian environmental authority) to pay a fine, the amount of which was not determined, but could amount to approximately US$8,000, for failing to make proper restoration to one of its old projects (the "Marcia" project). Although Solex completed the restoration pursuant to the closure plan, the OEFA contends that certain areas within Marcia, were not restored as original. In November 2016, the OEFA denied Solex's appeal and confirmed Solex as a repeat offender, but did not establish any fine. The Company believes that any fine levied will be reduced to a prescribed de minimis amount. As the outcome cannot be determined at this time, no accrual has been made in these Financial Statements.

14. Segmented information

As at June 30, 2017, the Company has only one operating, the corporate administration of the Company from Canada. As such, amounts disclosed in the Financial Statements also represent the single operating and geographic reporting segments.

Prior to the Option Date and for the comparative year, the Company had the following segmented information:

Operating segments

The Company's operations comprised a single reporting operating segment engaged in mineral exploration in Peru.

Geographic segments

Caracara is in the business of mineral exploration and production with operations in Canada and Peru. As such, management organized the Company's operations by geographic area. The Peruvian segment was responsible for that country's mineral exploration and production activities while the Canadian segment manages corporate head office activities.

(Expressed in Canadian dollars)

Information concerning Caracara's geographic segments is as follows:

Year ended June 30,	2017	2016
		$
Consolidated loss		
Canada	**(25,125)**	(83,784)
Peru	**(50,800)**	(48,290)
Total loss	**(75,925)**	(132,074)

As at June 30,	2017	2016
	$	$
Identifiable assets		
Canada	**5,753**	2,834
Peru	**-**	1,797
Total assets	**5,753**	4,631

15. Income taxes

A reconciliation of income taxes computed at Canadian statutory rates to the reported income taxes for the years ended June 30, 2017 and 2016 is provided as follows:

	2017	2016
	$	$
Loss for the year	**(75,925)**	(132,074)
Canadian statutory tax rate	**26%**	26%
Income tax recovery computed at the statutory rate	**(19,741)**	(34,339)
Foreign tax rates different from statutory rates	**2,313**	(19,104)
Effect of change in tax rate	**105,839**	126,736
Change in timing differences	**1,249,885**	(10,280)
Impact of foreign exchange on tax assets and liabilities	**(13,950)**	(43,063)
Losses overprovided in prior years	**694**	241,780
Unused tax offsets	**(1,325,040)**	(261,730)
	-	-

The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable sufficient taxable income will be available to utilize deferred tax assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts as at June 30, 2017 and 2016:

(Expressed in Canadian dollars)

	2017	2016
	$	$
Non-capital losses carried forward	**4,147,000**	4,097,597
Exploration and evaluation assets	**11,830**	4,452,661
Equipment and others	**-**	7,806
Unrecognized deductible temporary differences	**4,158,830**	8,558,064

The Company has accumulated non-capital losses for Canadian income tax purposes of approximately $3,959,000 and net operating loss for Peruvian tax purposes of approximately $788,000 available for carry-forward to reduce future years' taxable income.

Non-capital losses expire as follows:

	$
Carried forward indefinitely	788,000
2030	2,000
2031	140,000
2032	1,027,000
2033	765,000
2034	717,000
2035	486,000
2036	172,000
2037	50,000
Total non-capital loss carry-forwards	4,147,000

16. Events after the reporting date

(i) Financing

On September 20, 2017, the Company announced it had arranged a non-brokered private placement offering for total gross proceeds of up to $150,000. Pursuant to the offering, Caracara will seek a discretionary waiver from the five-cent minimum pricing requirement by the TSXV pursuant to the TSXV bulletin dated April 7, 2014. The Company will issue a total of up to 30 million units at a price of one-half-of-one-cent per unit. Each unit shall be comprised of one common share and one warrant exercisable at $0.005 for a period of one year. The Company will undertake to consolidate its shares on a minimum of ten old shares for one new share basis prior to February 20, 2018. The Company received TSXV conditional approval for this financing on September 26, 2017.

(ii) First Anniversary Payment

On October 11, 2017, the Company received the First Anniversary Payment (*note 13*).

Caracara Silver Inc.

Unaudited Interim

Consolidated Financial Statements

As at and for the three and nine months ended

March 31, 2019 and 2018

(Expressed in Canadian dollars)

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of Caracara Silver Inc. (the "Company") have been prepared by and are the responsibility of management. The unaudited interim consolidated financial statements as at and for the three and nine months ended March 31, 2019 and 2018 have not been reviewed by the Company's auditors.

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MANAGEMENT'S RESPONSIBILITY FOR UNAUDITED
INTERIM CONSOLIDATED FINANCIAL REPORTING

The accompanying unaudited interim consolidated financial statements of Caracara Silver Inc. (“Caracara”) are the responsibility of management and the Board of Directors (the “Board”) of the Company.

The unaudited interim consolidated financial statements (the “Financial Statements”) have been prepared by management, on behalf of the Board, in accordance with the accounting policies disclosed in the notes to the unaudited interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

As the Company is a Venture Issuer (as defined under under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) (“NI 52-109”), the Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures (“DC&P) and/or ICFR, as defined in NI 52-109, nor has it completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

“Nick Tintor”	*“Stephen Gledhill”*
President and Chief Executive Officer	Chief Financial Officer
May 22, 2019	May 22, 2018

Caracara Silver Inc.
Unaudited Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at	**March 31, 2019**	June 30, 2018
	$	$
Assets		
Current assets		
Cash *(note 7)*	**1,019,528**	1,121,383
Sales taxes recoverable	**4,560**	14,330
Total current assets	**1,024,088**	1,135,713
Non-current assets		
Investments *(note 8)*	**75,000**	-
Total non-current assets	**75,000**	-
Total assets	**1,099,088**	1,135,713
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 9)*	**15,146**	114,103
Advances due to related parties *(note 10)*	**-**	44,860
Total current liabilities	**15,146**	158,963
Total liabilities	**15,146**	158,963
Equity		
Share capital *(note 11)*	**8,025,809**	8,046,137
Warrants *(note 11)*	**569,419**	699,705
Deficit	**(7,540,054)**	(7,769,092)
Total equity	**1,055,174**	976,750
Total liabilities and equity	**1,055,174**	1,135,713

Approved for issuance by the Board on May 22, 2019:

"Robert Boaz"

Director

"Stephen Coates"

Director

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Caracara Silver Inc.
Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in Canadian dollars except weighted-average share information)

	3 months ended March 31,		9 months ended March 31,	
	2019	2018	**2019**	2018
	$	$	**$**	$
Exploration and evaluation expenditures *(note 12)*	**-**	-	**(150,000)**	(50,000)
Administrative expenses				
Consulting and professional fees	**5,848**	(1,260)	**19,552**	3,740
Directors' fees and expenses (*note 10*)	**-**	5,000	**-**	15,000
General and administrative	**2,198**	837	**5,327**	2,592
Management fees and salaries *(note 10)*	**30,000**	9,000	**69,000**	14,500
Shareholder and public company expenses	**5,066**	4,251	**6,804**	8,959
Total administrative expenses	**43,112**	17,828	**100,683**	44,791
Total expenses and expenditures	**43,112**	17,828	**(49,317)**	(5,209)
Income (loss) before other items	**(43,112)**	(17,828)	**49,317**	5,209
Other items:				
Foreign exchange gain	**(3,937)**	(1,411)	**599**	327
Gain on write-off of accounts payable	**113**	-	**28,505**	-
Interest income (expense)	**1**	(1,800)	**3**	(6,168)
Total other items	**(3,823)**	(3,211)	**29,107**	(5,841)
Income (loss) and comprehensive income (loss) for the period	**(46,935)**	(21,039)	**78,424**	(632)
Basic and fully diluted earnings per share	**(0.00)**	(0.00)	**0.00**	(0.00)
Weighted average number of common shares outstanding	**24,402,901**	6,151,540	**24,402,901**	6,820,970

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Caracara Silver Inc.
Unaudited Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Share Capital				
	Number of shares	Amount	Warrants	Deficit	Total
		$	$	$	$
Balance, June 30, 2017	5,189,568	7,413,722	-	(7,659,588)	(245,866)
Issuance of shares for cash	3,000,000	150,000	-	-	150,000
Fair value of issued warrants	-	(75,000)	75,000	-	-
Income for period	-	-	-	(632)	(632)
Balance, March 31, 2018	8,189,568	7,488,722	75,000	(7,660,220)	(96,498)
Issuance of shares for cash	16,213,333	1,216,000	-	-	1,216,000
Fair value of issued warrants	-	(567,785)	567,785	-	-
Fair value of issued finders' units	-	(56,920)	56,920	-	-
Share issuance costs	-	(33,880)	-	-	(33,880)
Loss for period	-	-	-	(108,872)	(108,872)
Balance, June 30, 2018	24,402,901	8,046,137	699,705	(7,769,092)	976,750
Expiry of warrants	**-**	**(20,238)**	**(130,286)**	**150,614**	**-**
Income for period	**-**	**-**	**-**	**78,424**	**78,424**
Balance, December 31, 2018	**24,402,901**	**8,025,809**	**569,419**	**(7,540,054)**	**1,055,174**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Caracara Silver Inc.
Unaudited Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Six months ended	March 31, 2019	March 31, 2018
	$	$
Operating activities		
Net income (loss)	**78,424**	(632)
Non-cash interest	**-**	6,168
Net change in non-cash working capital items:		
Sales tax recoverable	**9,770**	(1,921)
Accounts payable and accrued liabilities	**(70,189)**	(19,000)
Cash provided from (used for) operating activities	**18,005**	(15,385)
Financing activities		
Shares issued for cash	**-**	150,000
Repayment of shareholder loan	**-**	(13,609)
Advances from (repayments to) related parties	**(44,860)**	(38,610)
Cash provided from (used for) financing activities	**(44,860)**	97,781
Investing activities		
Investment in Alcon Exploration Corp. *(8 & 11(a)(iii))*	**(75,000)**	-
Cash used for investing activities	**(75,000)**	-
Increase (decrease) in cash for the period	**(101,855)**	82,396
Cash and cash equivalents at beginning of year	**1,121,383**	2,733
Cash at end of period	**1,019,528**	85,129

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

1. General

Caracara Silver Inc. (the "Company" or "Caracara") was incorporated under the laws of British Columbia on December 3, 2009.

The principal business activity of the Company is the acquisition, exploration and development of mineral properties in Peru. The Company's main and registered office is located at 401 Bay Street, Suite 2702, Toronto, Ontario, Canada, M5H 2Y4.

As the Company has optioned its only property (see note 13), it does not meet the continued listing requirements of the TSX Venture Exchange ("TSXV"). As a result, as of October 17, 2016, the Company has migrated to the NEX market, a sub-board of the TSXV, and traded under the symbol "CSV.H". On April 30, 2018, the Company completed a 1-for-10 share consolidation (see note 12) and changed its symbol to "SILV.H".

On August 13, 2018, the Company and Xtraction Services, Inc. ("Xtraction") entered into a binding letter of intent ("LOI") setting out the conditions of a proposed business combination between Caracara and Xtraction (the "Transaction") pursuant to which the Company will acquire all of the issued and outstanding common shares of Xtraction. The LOI has currently been extended until February 28, 2019. It is currently contemplated that the Transaction will be structured as a "reverse triangular merger" between Xtraction, Caracara and a wholly-owned subsidiary of Caracara to be incorporated under the laws of Delaware.

Upon completion of the Transaction, the parties intend that the Company's shares will be delisted from the TSXV and listed on the Canadian Securities Exchange or the NEO Exchange. The Transaction is subject to TSXV and shareholder approval of both Xtraction and Caracara shareholders.

Pursuant to the amended Option Agreement (note 13), the Company affected the sale ("Sale") of the Property to Alcon Exploration Corp. ("Alcon"), leaving Solex with no concession assets. In concert with the Sale and in anticipation of the closing of the Transaction, the Company commenced the wind-up and dissolution of Solex and on January 31, 2019, the Company received the final certificate of dissolution from the Superintendent of National Registrations for Peru.

2. Continuance of operations

These unaudited interim consolidated financial statements (the "Consolidated Financial Statements") are prepared on a going-concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company had working capital of $980,174 as at March 31, 2019 (June 30, 2018 – $976,750), and an accumulated deficit of $7,540,054 (June 30, 2018– $7,769,092).

Should the Transaction not complete, the ability of the Company to continue as a going concern and meet its commitments as they become due, is dependent on the Company's ability to attain profitable operations and/or obtain the necessary financing. Management continues to assess alternatives to raising additional funding, which may include additional equity offerings. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management will be required to curtail even limited Company operations. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The business of mining exploration involves a high degree of risk and there is no assurance that current or future exploration projects will result in future profitable mining operations. The Company has no source of revenue but continues to have cash requirements to meet its administrative overhead and pay its debts and liabilities.

The Consolidated Financial Statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

3. Basis of preparation

3.1 Statement of compliance

The Consolidated Financial Statements, including comparatives, have been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ("IASB"). Interim financial statements would not normally include all the information required for full annual financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company as at and for the years ended June 30, 2018 and 2017.

The Consolidated Financial Statements were approved for issuance by the Board on May 22, 2019.

3.2 Basis of presentation

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as set out in note 6. The Consolidated Financial Statements are presented in Canadian dollars, the Company's functional currency.

3.3 Basis of consolidation

Subsidiaries are entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date on which control ceases.

The Consolidated Financial Statements include the financial statements of the Company and its wholly-owned subsidiaries, CSI Princesa Inc. incorporated in Ontario, Canada and Solex del Peru S.A.C. ("Solex") incorporated in Peru, up to January 31, 2019 (the date of dissolution). The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of operations and comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-Company transactions, balances, income and expenses are eliminated on consolidation.

(Expressed in Canadian dollars)

3.4 Adoption of new and revised standards and interpretations

IFRS 9 ***Financial Instruments***

Issued by IASB	July 2014
Effective for the Company's annual period beginning	July 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- **Classification and measurement of financial assets.** Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: “amortized cost”, “fair value through other comprehensive income”, or “fair value through profit or loss” (default). Equity instruments are classified and measured as “fair value through profit or loss” unless upon initial recognition elected to be classified as “fair value through other comprehensive income”.
- **Classification and measurement of financial liabilities.** When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity’s own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- **Impairment of financial assets.** An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at “amortized cost” or “fair value through other comprehensive income”, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- **Hedge accounting:** Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The Company has adopted this IFRS, as applicable.

IFRS 15 ***Revenue from Contracts with Customers***

Issued by IASB	May 2014
Effective for the Company’s annual period beginning	July 1, 2018

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

Revenue is recognized based on a five-step model:

1. Identify the contract with customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) the performance obligations are satisfied.

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Company currently has no revenue but has adopted this policy, as applicable.

IFRS 16 *Leases*

Issued by IASB	January 2016
Effective for the Company's annual period beginning	July 1, 2019

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers.*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The Company is currently assessing the implications IFRS 16 will have on the Consolidated Financial Statements.

4. Capital management

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts and deficit. The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The Company currently has no source of operating cash flow. The Company intends to raise additional funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The ability of the Company to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the 6 months ended March 31, 2019. The Company is not subject to externally imposed capital restrictions.

5. Financial instruments

Fair value

As at March 31, 2019 and June 30, 2018, the Company's financial instruments consist of cash, investments, accounts payable and accrued liabilities, and advances due to related parties (June 30, 2018 only). The fair value of cash, accounts payable and accrued liabilities, and advances due to related parties approximate their carrying values due to the relatively short-term-to-maturity nature. The fair value of the Company's investment (classified as held-to-maturity) has been estimated using level 2 inputs from the fair-value hierarchy.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgement, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to its financial instruments are reflected below:

i) Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations to the Company. Financial instruments that potentially subject the Company to concentrations of credit risks consist of the Company's cash. To minimize the credit risk, the Company places its cash with high credit quality financial institutions. Cash is held with a major Canadian bank and therefore the risk of loss is minimal.

ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company typically settles its financial obligations out of cash and occasionally will settle liabilities with the issuance of common shares. The ability to settle obligations with cash relies on the Company raising financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

As at March 31, 2019, the Company had cash of $1,019,528 (June 30, 2018 – $1,1231,383) and liabilities of $43,914 (June 30, 2018, $158,963) and therefore has sufficient funds to settle its current liabilities. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. In addition, in order to meet its longer-term working capital requirements, property exploration expenditures or other business opportunities the Company intends on securing further financing to ensure that those obligations are properly discharged.

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

a. Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term nature of its monetary assets and liabilities. The promissory note was fully discharged during the year ended June 30, 2018.

b. Currency risk

Although the Company's operations are conducted in Canadian dollars, it may enter into contracts and/or agreements that require payment in United States dollars or other foreign currencies. Management believes that foreign currency risk derived from currency conversions is negligible and, therefore, does not hedge its foreign currency risk.

c. Price risk

The Company is not subject to price risk.

6. Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a one-year period.

The Company's funds are kept in Canadian and US dollars at a major Canadian financial institution. As at March 31, 2019 and June 30, 2018, the Company's exposure to foreign currency balances is as follows:

(Expressed in Canadian dollars)

Account	Foreign Currency	Exposure ($CDN)	
		March 31, 2019	June 30, 2018
Cash	US dollar	**179,835**	182,245
Accounts payable	US dollar	**-**	(28,459)

The Company believes that a change of 10% (2018 - 10%) in foreign exchange rates would cause income (loss) and comprehensive income (loss) to increase/decrease by approximately $18,000 for the 9 months ended March 31, 2019 (year ended June 30, 2018 - $15,400).

7. Cash

The balance at March 31, 2019, consists of cash amounting to $1,019,528 (June 30, 2018 – $1,121,383) on deposit with a major Canadian bank.

8. Investment

The Company's investment is classified as held-to-maturity and consists of 800,000 common shares (the "Alcon Shares") of Alcon, which it accepted as partial consideration for Alcon's Second Anniversary option payment (see note 11 (a)(iii)). The fair value of the Alcon Shares was estimated at $75,000.

9. Accounts payable and accrued liabilities

Accounts payable of the Company are principally comprised of amounts outstanding for operating and financing activities. The usual credit period for trade purchases is between 30 to 90 days.

The following is an analysis of the accounts payable and accrued liabilities:

As at,	**March 31, 2019**	June 30, 2018
	$	$
Suppliers	**15,146**	84,085
Accrued liabilities	**28,768**	30,018
Total accounts payable and accrued liabilities	**43,914**	114,103

10. Transactions with related parties and key management compensation

The Consolidated Financial Statements include transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. The Company incurred fees and expenses in the normal course of operations in connection to officers and directors, or companies controlled by them, as follows:

(Expressed in Canadian dollars)

	3 months ended March 31,		9 months ended March 31,	
	2019	2018	**2019**	2018
	$	$	**$**	$
Management fees and salaries	**30,000**	9,000	**69,000**	14,500
Directors' fees and expenses	**-**	5,000	**-**	15,000

There were no amounts due to related parties as at March 31, 2019. As at June 30, 2018, amounts owing to directors was $30,000 and to a company controlled by the Company's CEO and CFO was $14,860. The amounts owing are unsecured, interest-free and have no fixed terms of repayment.

11. Share capital

Authorized share capital consists of an unlimited number of common shares.

Fiscal 2019

The Company did not issue any common shares during the 9 months ended March 31, 2019.

Fiscal 2018

Consolidation

On April 30, 2018, the Company completed a 1-for-10 share consolidation (the "Consolidation"). Outstanding shares and weighted-average outstanding shares, options and warrants have been adjusted to account for the Consolidation.

In June 2018, the Company completed a private placement issuing 16,213,333 units (each a "Unit") at $0.075 per Unit, raising gross proceeds of $1,216,000. Each Unit consisted of one common share and one share-purchase warrant (a "Warrant"). The Warrants are exercisable into one common share at a price of $0.15 each, until maturity on June 10, 2019. In addition, the Company paid cash finders fees of $33,881 and issued 451,743 finders' units (each a "Finder Unit"). Each Finder Unit is exercisable for $0.10 into one common share and finders'-share warrant (a "Finder-Share Warrant"). Each Finder-Share Warrant is exercisable for $0.15 into one common share until expiry on June 10, 2019.

The fair value of $569,419 for the warrants issued was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.90%, expected volatility of 319.57%, expected life of one year, dividend rate of nil and share price at the issuance date of $0.125. A fair value of $56,919 for the Finders' Units issued was estimated using the Geske option pricing model with the following assumptions: Risk-free interest rate of 1.90%, expected volatility of 186.34%, dividend rate of nil, share price at the issuance date of $0.125, exercise price of the compound option of $0.10, exercise price of the underlying option of $nil, an expected life of the compound option of 0.5 years and expected life of the underlying option of one year.

(Expressed in Canadian dollars)

In November 2017, the Company completed a private placement issuing 3,000,000 Units at $0.05 per Unit, raising gross and net proceeds of $150,000. Each Unit consisted of one common share and one Warrant. Each Warrants is exercisable into one common share at a price of $0.05, until expiry on November 3, 2018.

A fair value of $73,366 for the Warrants issued was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.43%, expected volatility of 373.9%, expected life of one year, dividend rate of nil and share price at the issuance date of $0.10.

Options

Caracara has a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors, employees and consultants. The plan allows for the issuance of up to 10% of the issued and outstanding common shares. As at March 31, 2018, the Company had 2,440,290 (June 30, 2018 – 2,440,290) options available for issuance.

Warrants

A continuity of the outstanding warrants of the Company follows:

	Number of Warrants	Weighted Average Exercise Price ($)
Balance as at June 30, 2017	-	-
Warrants issued	19,213,333	0.13
Finder units issued	451,743	0.10
Finder unit-warrants issued	451,743	0.15
Balance as at June 30, 2018	20,116,819	0.13
Warrants expired	(3,000,000)	0.05
Finder units expired	(451,743)	(0.10)
Finder unit-warrants expired	(451,743)	(0.15)
Balance as at March 31, 2019	16,213,333	0.15

As at March 31, 2019, the Company had the following warrants outstanding:

Date of Expiry	Type	Exercise Price ($)	Number	Weighted Average Remaining Life in Years
June 10, 2019	Warrant	0.15	16,213,333	0.19

12. Exploration and evaluation expenditures

The evaluation and exploration expenses for the Company are broken down as follows:

(Expressed in Canadian dollars)

	3 months ended		9 months ended		Cumulative
	March 31, 2019	March 31, 2018	**March 31, 2019**	March 31, 2018	to March 31, 2019
	$	$	**$**	$	$
Acquisition costs	**-**	-	**-**	-	1,963,104
Exploration costs:					
Drilling	**-**	-	**-**	-	426,185
Environmental and community relations	**-**	-	**-**	-	233,416
Assaying and sampling	**-**	-	**-**	-	111,809
Field and camp supplies	**-**	-	**-**	-	567,215
Consulting and professional fees	**-**	-	**-**	-	594,495
General exploration expenditures	**-**	-	**-**	-	1,769,802
Total exploration costs	**-**	-	**-**	-	3,702,922
Recovery from option agreement (see below)	**-**	-	**(150,000)[1]**	(50,000)[1]	(508,968)
Total exploration and evaluation expenditures	**-**	-	**(150,000)**	(50,000)	5,157,058

[1]Payments received pursuant to the Option Agreement, as defined below.

Mineral projects

On August 31, 2016 (the “Option Date”), the Company executed an option agreement, with amendment dated November 10, 2018 (the “Option Agreement”) with Alcon Exploration Corp., whereby Alcon has the option to earn a 100% interest in the Company’s Princesa silver concessions located in Peru (the “Property”).

Alcon can exercise the option by paying Caracara the following amounts:

(a) An aggregate sum of $250,000 as follows:

(i) $50,000 (the “Initial Payment”) within seven business days of the approval of the Option Agreement by the TSXV (the “Approval Date”) (received);

(ii) $50,000 on or before the first anniversary of the Approval Date (the “First Anniversary Payment”) (received); and

(iii) $150,000 on or before the second anniversary of the Approval Date (the Second Anniversary Payment”); (received) and

(b) 2,000,000 common shares of the capital of Caracara upon closing of a going-public transaction by the Optionor, in accordance with the Option Agreement.

The Initial Payment, First Anniversary Payment and Second Anniversary Payment have been recorded as a reduction to exploration expenditures during the 9 months ended March 31, 2018, 2018 and 2017.

Pursuant to the amended Option Agreement, consideration for the Second Anniversary Payment consisted of the following:

(i) $75,000, settled with common shares of Alcon (see note 8); and
(ii) $61,611, settled in cash; and
(iii) $13,389 (US$10,000), settled in cash to Solex as consideration for the transfer of the Property to a Peruvian subsidiary of Alcon.

13. Segmented information

As at March 31, 2019, the Company has only one operating and geographic segment, the corporate administration of the Company from Canada. As such, amounts disclosed in the Consolidated Financial Statements also represent the single operating and geographic reporting segments.

SCHEDULE "D"
CARACARA MD&A

(PLEASE SEE ATTACHED)

Caracara Silver Inc.

Annual Management's Discussion and Analysis

of the Financial Condition and Results of Operations

for the year ended June 30, 2018

October 24, 2018

Caracara Silver Inc.

Annual Management's Discussion and Analysis
For the year ended June 30, 2018

This management discussion and analysis ("MD&A") has been prepared based on information available to Caracara Silver Inc. ("Caracara" or the "Company") as at October 24, 2018. The MD&A of the operating results and financial condition of the Company for the year ended June 30, 2018, should be read in conjunction with the Company's audited annual consolidated financial statements (the "Financial Statements") and the related notes as at and for the years ended June 30, 2018 and 2017. The Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this MD&A has also been prepared by management and is consistent with the data contained in the Financial Statements. Additional information relating to the Company may be found under its profile on SEDAR at www.sedar.com.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the Financial Statements.

The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

As the Company is a Venture Issuer (as defined under under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), the Company and Management are not required to include representations relating to the establishment and/or maintenance of disclosure controls and procedures and/or ICFR, as defined in NI 52-109, nor has it completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CAUTIONARY NOTE

This document contains or refers to forward-looking information. Such forward-looking information includes, among other things, statements regarding targets, estimates and/or assumptions in respect of future production, capital costs and future economic, market and other conditions, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; exploration and development costs varying significantly from estimates; inflation; fluctuations in commodity prices; delays in the development of the any project caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise; termination or revision of any debt financing; failure to raise additional funds required to finance the completion of a project; and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no responsibility to update them or revise them to reflect new events or circumstances, except as required by law. See the section entitled ***Risks and uncertainties***.

Corporate

Caracara Silver Inc. (the "**Company**" or "**Caracara**") was incorporated under the laws of British Columbia on December 3, 2009.

The principal business activity of the Company is the acquisition, exploration and development of mineral properties in Peru. The Company's main and registered office is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, Canada, M5H 1T1.

The Financial Statements were approved for issuance by the Board of Directors on October 23, 2018.

The Company's only property has been optioned (see *Option Agreement and Proposed Amendment* section of this MD&A), and as such, the Company trades on the NEX market of the TSX Venture Exchange ("**TSXV**"). On April 30, 2018, the Company completed a 1-for-10 consolidation (note 12 of the Consolidated Financial Statements) and changed its symbol to "SILV.H".

Business Combination with Xtraction Services, Inc. ("Xtraction")

On August 13, 2018, the Company and Xtraction entered into a binding letter of intent setting out the conditions of a proposed business combination between Caracara and Xtraction by way of an amalgamation, arrangement, share purchase of share exchange agreement or other similar form of transaction (the "**Transaction**") pursuant to which the Company will acquire all of the issued and outstanding common shares of Xtraction. It is currently contemplated that the Transaction will be structured as a "reverse triangular merger" between Xtraction, Caracara and a wholly-owned subsidiary of Caracara to be incorporated under the laws of Delaware.

Upon completion of the Transaction, the parties intend that the Company's shares will be delisted from the NEX and listed on the Canadian Securities Exchange or the NEO Exchange. The Transaction is subject to TSXV and shareholder approval of both Xtraction and Caracara shareholders.

Option Agreement and Proposed Amendment

On August 31, 2016, the Company executed an option agreement (the "**Agreement**") with Alcon Exploration Corp. ("Alcon"), whereby Alcon has the option to earn a 100% interest in the Company's Princesa silver concessions located in Peru (the "**Property**"). Currently, Alcon can exercise the option by paying the Caracara an aggregate of $250,000 (of which $100,000 was paid to the Company during the years ended June 30, 2017 and 2018 (the "**Option Receipts**")) and by issuing 2,000,000 common shares of Alcon to Caracara upon closing of a going-public transaction in accordance with the terms of the Agreement. If the option is exercised, Caracara shall retain a 1.5% net smelter returns royalty in the Property, subject to the right of Alcon to purchase 1% of the royalty for a payment to Caracara of USD$1,000,000.

As at the date of this MD&A, the Company and Alcon are in discussions to amend the Agreement in order to facilitate an earlier transfer of title of the Property that will satisfy the Transaction. Details of the proposed amendment and the Transaction will be disclosed in the Information Circular to be distributed to Shareholders for the Company's upcoming Annual and Special Meeting of Shareholders, to be held on December 14, 2018.

Exploration and evaluation expenditures (recoveries)

The evaluation and exploration expenses (recoveries) for the Company are broken down as follows:

	Year ended June 30, 2018	Year ended June 30, 2017	Cumulative to June 30, 2018
	$	$	$
Acquisition costs	**-**	-	1,963,104
Exploration costs:			
Drilling	**-**	-	426,185
Environmental and community relations	**-**	-	233,416
Assaying and sampling	**-**	-	111,809
Field and camp supplies	**-**	-	567,215
Consulting and professional fees	**-**	-	594,495
General exploration expenditures	**-**	500	1,769,802
Total exploration costs	**-**	-	3,702,922
Recovery due to option agreement	**(50,000)[1]**	(50,000)[1]	(358,968)
Total exploration and evaluation expenditures	**(50,000)**	(49,500)	5,307,058

[1]Reflects the Option Receipts noted above.

Results of operations

Years ended June 30, 2018 and 2017

During the year ended June 30, 2018, the Company incurred net losses of $109,504 ($0.01 per share) compared to a net loss for the year ended June 30, 2017, of $75,925 ($0.01 per share). The significant causes of the increase of $33,579 in net loss for the year ended June 30, 2018, are detailed below:

Exploration recovery $50,000 (2017 - $49,500)

2017 net recovery reflects miscellaneous costs of $500.

Consulting and professional fees $114,252 (2017 - $12,990)

Increased costs of $101,262 reflect an increase for business valuation fees of $104,000, completed for the financings closed in fiscal 2018 less reductions to audit fees of $3,000.

Directors' fees and expenses $10,000 (2017 - $20,000)

The reduction for the current year reflects the agreement between the Company and its directors on the final amount due prior to the Transaction.

General and administrative costs $4,047 (2017 - $31,404)

General and Administrative Costs decreased by $27,357, mainly the result of Solex minimal operations during fi~~scal 2018.~~

Gain on retirement of promissory note $19,860 (2017 – $nil)

The gain is a result of the settlement of the Company's promissory note (see note 11 in the Consolidated Financial Statements).

Gain on forgiveness of accounts payable $23,868 (2017 – $nil)

The gain is a result of a portion of the Company's Peruvian subsidiary's accounts payable.

Selected Annual Information

Following is selected annual information for each of the three most recently completed financial years:

	June 30, 2018	June 30, 2017	June 30, 2016
	$	$	$
Total revenues	-	-	-
Net loss	(109,504)	(75,925)	(132,074)
Basic and diluted net loss per common share	(0.01)	(0.01)	(0.00)
Total assets	1,135,713	5,753	4,631
Long-term debt	-	-	-
Deficit	(7,769,092)	(7,659,588)	(8,811,231)
Cash dividends declared per common share	-	-	-

Summary of quarterly results

Following is selected quarterly information for each of the eight most recently completed financial quarters:

	Quarter ended Jun.30, 2018	Quarter ended Mar.31, 2018	Quarter ended Dec.31, 2017	Quarter ended Sep. 30, 2017
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	(108,872)	(21,039)	38,379	(17,972)
Basic and diluted net loss per share	(0.01)	(0.00)	0.00	(0.00)
Total assets	1,135,713	90,070	111,326	3,046
Long-term debt	–	–	–	–
Deficit	(7,769,092)	(7,660,220)	(7,639,181)	(7,677,560)
Cash dividends declared per common share	–	–	–	–

	Quarter ended Jun. 30, 2017	Quarter ended Mar. 31, 2017	Quarter ended Dec. 31, 2016	Quarter ended Sept. 30, 2016
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	(47,273)	(19,170)	(26,435)	16,953
Basic and diluted net loss per share	0.00	0.00	0.00	0.00
Total assets	5,753	11,349	10,940	26,903
Long-term debt	–	–	–	–
Deficit	(7,659,588)	(8,839,883)	(8,820,713)	(8,794,278)
Cash dividends declared per common share	–	–	–	–

The Company's operations are not generally subject to seasonal variations. The timing of any exploration activities is influenced primarily by the availability of funds and the identification of suitable exploration targets, however, due to either their location or nature the exploration of some properties may be restricted during certain times of the year due to climatic conditions.

Adoption of new and revised standards and interpretations

IFRS 9 *Financial Instruments*

Issued by IASB July 2014
Effective for the Company's annual period beginning July 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- **Classification and measurement of financial assets.** Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- **Classification and measurement of financial liabilities.** When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- **Impairment of financial assets.** An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- **Hedge accounting:** Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The Company has assessed the implications of IFRS 9 and does not expect there to be a substantial impact to the Consolidated Financial Statements.

IFRS 15 *Revenue from Contracts with Customers*

Issued by IASB	May 2014
Effective for the Company's annual period beginning	July 1, 2018

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

Revenue is recognized based on a five-step model:
1. Identify the contract with customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) the performance obligations are satisfied.

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Company has assessed the implications of IFRS 15 and does not expect there to be a substantial impact to the Consolidated Financial Statements.

IFRS 16 *Leases*

Issued by IASB	January 2016
Effective for the Company's annual period beginning	July 1, 2019

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers.*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The Company is currently assessing the implications IFRS 16 will have on the Consolidated Financial Statements.

Liquidity and capital resources

As at June 30, 2018, the Company had cash of $1,121,383, and working capital of $976,750, compared to cash of $2,733 and working capital deficit of $245,866 at June 30, 2017. The Company's financing activities during the year consisted of the completion of 2 non-brokered private placements (in November 2017 and June 2018) raising a total of $1,332,120. This was offset by the repayment of the Company's promissory note of $60,000. As noted above, the Company also received the Option Receipts (in the amount of $50,000 for the current year) from Alcon, with such amount reflected as a credit against cash used in operating activities.

Cash increased in the current year by $1,118,650 with cash used in operating activities of $121,330, offset by the above-mentioned financing activities of $1,272,120. The Company had no investing activities for the year.

Significant accounting judgements and estimate

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the Consolidated Financial Statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The going concern assumption

  The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- Recognition of deferred tax assets and liabilities

  In assessing the probability of realizing income tax assets and liabilities, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

- The determination of the Company's functional currency

  The functional currency of the Company is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

- The determination of the fair value of derivative instruments (warrants, units and finders' units)

  As noted above, the Company estimates the fair value of derivative instruments for any issued share purchase warrants and units using the Black-Scholes option pricing model and the fair value of compound instruments (such as finders' units exercisable into a common share and share purchase warrant) using the Geske option pricing model. Use of both of these models requires management to make subjective assumptions and use variables that it deems appropriate in the circumstances, including expected price volatility, expected life, interest rates and forfeiture rates. Changes in the inputted assumptions and variables could have a material affect on the estimated fair value and the Company's contributed surplus.

Transactions with related parties

During the year ended June 30, 2018, RG Mining Investments Inc. ("RGMI") charged the Company $36,500 (2017 - $36,000) for management and administrative fees. RGMI provides management and administrative services to the Company. The agreement providing the services had a term of 1 year and expired May 31, 2013. The Company's CEO and CFO beneficially own RGMI.

During the year ended June 30, 2018, the Company incurred board of directors' fees and expenses of $10,000 (2017 – $20,000).

As at June 30, 2018, amounts owing to related parties consists of director fees of $30,000 (2017 - $20,000), management fees to RGMI of $14,860 (2017 - $57,000). The amounts owing are unsecured, interest-free and have no fixed terms of repayment.

Risks and uncertainties

The business of mining exploration involves a high degree of risk and there is no assurance that current or future exploration projects will result in future profitable mining operations. The Company has no source of revenue but continues to have cash requirements to meet its administrative overhead and pay its debts and liabilities.

Continuance of operations and going concern

The Consolidated Financial Statements are prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company had working capital of $976,750 as at June 30, 2018 (2017 - $245,866), and an accumulated deficit of $7,769,092 (2017 - $7,659,588).

As disclosed above, in August 2018, the Company and Xtraction entered into a binding letter of intent setting out the conditions of the Transaction. However, should the Transaction not complete, the ability of the Company to continue as a going concern and meet its commitments as they become due, including exploration and development of its mineral properties, is dependent on the Company's ability to attain profitable operations and/or obtain the necessary financing. Management continues to assess alternatives to raising additional funding, which may include additional equity offerings. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management will be required to curtail even limited Company operations. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The Consolidated Financial Statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern, which could be material

Operational

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. The risks stated in this section of the MD&A are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the following risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

Exploration and development risk

Caracara's business of exploring mineral resources involves a variety of operational, financial and regulatory risks that are typical in the mining industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and Caracara's common shares should be considered speculative.

Financing risk

There can be no assurance that any funding required by the Company will become available, and, if so, that it will be offered on reasonable terms or that the Company will be able to secure such funding through third party financing or cost sharing arrangements. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or projects or that they can be secured on competitive terms

Political and demographic risk

The Company and its wholly-owned subsidiary, Solex, will be subject to political instability and changes in government policies, laws and regulations in Peru. Any changes in regulations or shifts in political conditions are beyond the Company's control and may adversely affect the Company's and/or Solex's business, including, income taxes, expropriation of property, employment, land use, water use, environmental legislation and exploration safety.

Segregation of duties

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to the Company's small size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its financial statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

Outstanding Share Data

As at October 24, 2018, the Company had the following capitalization:

Security	Number
Common shares	24,402,901
Warrants	19,213,333
Finders' Units	451,743

General

The Company also discloses information related to its activities on its Company's profile on SEDAR at www.sedar.com.

Caracara Silver Inc.

Annual Management's Discussion and Analysis

of the Financial Condition and Results of Operations

for the year ended June 30, 2017

October 19, 2017

Caracara Silver Inc.

Annual Management's Discussion and Analysis
For the year ended June 30, 2017

This management discussion and analysis ("MD&A") has been prepared based on information available to Caracara Silver Inc. ("Caracara" or the "Company") as at October 19, 2017. The MD&A of the operating results and financial condition of the Company for the year ended June 30, 2017, should be read in conjunction with the Company's audited annual consolidated financial statements (the "Financial Statements") and the related notes as at and for the years ended June 30, 2017 and 2016. The Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this MD&A has also been prepared by management and is consistent with the data contained in the Financial Statements. Additional information relating to the Company may be found under its profile on SEDAR at www.sedar.com.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the Financial Statements.

The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

As the Company is a Venture Issuer (as defined under under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), the Company and Management are not required to include representations relating to the establishment and/or maintenance of disclosure controls and procedures and/or ICFR, as defined in NI 52-109, nor has it completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CAUTIONARY NOTE

This document contains or refers to forward-looking information. Such forward-looking information includes, among other things, statements regarding targets, estimates and/or assumptions in respect of future production, capital costs and future economic, market and other conditions, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; exploration and development costs varying significantly from estimates; inflation; fluctuations in commodity prices; delays in the development of the any project caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise; termination or revision of any debt financing; failure to raise additional funds required to finance the completion of a project; and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no responsibility to update them or revise them to reflect new events or circumstances, except as required by law. See the section entitled ***Risks and uncertainties***.

Corporate

Caracara Silver Inc. (the "Company" or "Caracara") was incorporated under the laws of British Columbia on December 3, 2009.

The principal business activity of the Company is the acquisition, exploration and development of mineral properties in Peru. The Company's main and registered office is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, Canada, M5H 1T1.

The Financial Statements were approved for issuance by the Board of Directors on October 19, 2017.

At the annual general and special meeting of its shareholders (the "AGSM") held on August 29, 2016, the shareholders of the Company approved, among other items, amending the Company's articles to allow the directors of the Company to approve the subdivision or consolidation of any or all of its shares without further shareholder approval as well as the option agreement of the Company's Princesa-Pilunani mineral concessions (the "Option Agreement").

As the Option Agreement constitutes the Company's main asset, the TSXV has advised Caracara that it no longer met the continued listing requirements of the TSXV. As of October 17, 2016, the Company has been migrated to the NEX market and its trading symbol changed to CSV.H.

The Option Agreement and Princesa-Pilunani project

On August 31, 2016, the Company executed the Option Agreement with Alcon Exploration Corp. ("Alcon"), whereby Alcon has the option to earn a 100% interest in the Company's Princesa silver concessions located in Peru (the "Property").

Alcon can exercise the option by paying the Caracara an aggregate of $250,000 (of which $50,000 has been paid to the Company upon the execution of the Agreement, during the year ended June 30, 2017 (the "Option Receipt")) in various installments over a three-year period and issuing 2,000,000 common shares of Alcon to Caracara upon closing of a going-public transaction in accordance with the terms of the Agreement. If the option is exercised, Caracara shall retain a 1.5% net smelter returns royalty in the Property, subject to the right of Alcon to purchase 1% of the royalty for a payment to Caracara of USD$1,000,000.

The evaluation and exploration expenses for the Company are broken down as follows:

	Year ended June 30, 2017	Year ended June 30, 2016	Cumulative to June 30, 2017
	$	$	$
Acquisition costs	**-**	-	1,963,104
Exploration costs:			
Drilling	**-**	-	426,185
Environmental and community relations	**-**	-	233,416
Assaying and sampling	**-**	-	111,809
Field and camp supplies	**-**	-	567,215
Consulting and professional fees	**-**	-	594,495

General exploration expenditures	**500**	42,157	1,769,802
Total exploration costs	**-**	42,157	3,702,922
Recovery due to option agreement	**(50,000)[1]**	-	(308,968)
Total exploration and evaluation expenditures	**(49,500)**	42,157	3,393,954

[1]Reflects the Option Receipt noted above.

Results of operations

Years ended June 30, 2017 and 2016

During the year ended June 30, 2017, the Company incurred net losses of $75,925 ($0.00 per share) compared to a net loss for the year ended June 30, 2016, of $132,074 ($0.00 per share). The decrease of $56,149 in net loss for the year ended June 30, 2016, is detailed below but reflects a marked reduction in activity as the Company affected its austerity program due to a limited cash position:

Exploration (recovery) expenditures $(49,500) (2016 - $42,157)

Decreased costs of $91,657 reflect the Option Receipt from Alcon.

Consulting and professional fees $12,990 (2016 - $21,393)

Decreased costs of $8,403 are mainly the result reduced audit fees.

Directors' fees and expenses $20,000 (2016 - $nil)

During fiscal 2017, independent directors' fees have been accrued but not paid. In fiscal 2016, the Board of Directors agreed to waive directors' fees.

General and administrative costs $31,404 (2016 - $11,670)

General and Administrative Costs increased by $19,734 mainly the result of Solex minimal wind-down operations.

Interest expense $7,824 (2016 – $6,060)

Interest on the promissory note (see the Financial Statements, note 11) for a full year during fiscal 2017 versus part-year for fiscal 2016.

Selected Annual Information

Following is selected annual information for each of the three most recently completed financial years:

	June 30, 2017	**June 30, 2016**	**June 30, 2015**
	$	$	$
Total revenues	-	-	-
Net loss	(75,925)	(132,074)	(529,136)
Basic and diluted net loss per common share	(0.00)	(0.00)	(0.01)

Total assets	5,753	4,631	10,961
Long-term debt	-	-	-
Deficit	(7,659,588)	(8,811,231)	(8,779,157)
Cash dividends declared per common share	-	-	-

Summary of quarterly results

Following is selected quarterly information for each of the eight most recently completed financial quarters:

	Quarter ended Jun.30, 2017	Quarter ended Mar.31, 2017	Quarter ended Dec.31, 2016	Quarter ended Sep. 30, 2016
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	(47,273)	(19,170)	(26,435)	16,953
Basic and diluted net loss per share	0.00	0.00	0.00	0.00
Total assets	5,753	11,349	10,940	26,903
Long-term debt	–	–	–	–
Deficit	(7,659,588)	(8,839,883)	(8,820,713)	(8,794,278)
Cash dividends declared per common share	–	–	–	–

	Quarter ended Jun. 30, 2016	Quarter ended Mar. 31, 2016	Quarter ended Dec. 31, 2015	Quarter ended Sept. 30, 2015
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	(58,526)	(26,509)	(29,766)	(17,273)
Basic and diluted net loss per share	0.00	0.00	0.00	0.00
Total assets	4,631	4,778	8,241	28,967
Long-term debt	–	–	–	–
Deficit	(8,811,231)	(8,752,705)	(8,726,196)	(8,696,430)
Cash dividends declared per common share	–	–	–	–

The Company's operations are not generally subject to seasonal variations. The timing of exploration activities is influenced primarily by the availability of funds and the identification of suitable exploration targets, however, due to either their location or nature the exploration of some properties may be restricted during certain times of the year due to climatic conditions.

Adoption of new and revised standards and interpretations

IFRS 9 ***Financial Instruments***

Issued by International Accounting Standards Boar ("IASB")	July 2014
Effective for the Company's annual period beginning	July 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- **Classification and measurement of financial assets.** Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- **Classification and measurement of financial liabilities.** When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- **Impairment of financial assets.** An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- **Hedge accounting:** Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The Company is currently assessing the implications IFRS 9 will have on the Financial Statements.

IFRS 15 ***Revenue from Contracts with Customers***

Issued by IASB	May 2014
Effective for the Company's annual period beginning	July 1, 2018

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

Revenue is recognized based on a five-step model:

1. Identify the contract with customer;

2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) the performance obligations are satisfied.

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Company is currently assessing the implications IFRS 15 will have on the Financial Statements.

IFRS 16 *Leases*

Issued by IASB	January 2016
Effective for the Company's annual period beginning	July 1, 2019

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers.*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.
The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.
- The new standard supersedes the requirements in IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The Company is currently assessing the implications IFRS 16 will have on the Financial Statements.

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Issued by IASB	January 2016
Effective for the Company's annual period beginning	July 1, 2017

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Company is currently assessing the implications Amendments to IAS 7 will have on the Financial Statements.

Liquidity and capital resources

As at June 30, 2017, the Company had cash of $2,733, and working capital deficit of $245,242, compared to cash of $3,006 and working capital deficit of $169,941 at June 30, 2016. The Company's financing activities during the year consisted of advances from a shareholder in the amount of $12,217, together with advances from related parties of $55,500. As noted above, the Company also received the Option Receipt from Alcon, with such amount reflected as a credit against cash used in operating activities.

Cash decreased in the current year by $273, with cash used in operating activities of $67,990, offset by the above-mentioned financing activities of $67,717. The Company had no investing activities for the year.

The Company is a junior mining company having issued only the promissory note (see the Financial Statements, note 11), loan from a shareholder and related-party debt. Other than these debts and the Option Receipt, the Company has relied entirely on equity financings up to June 30, 2017. The Company will require additional financing to continue to fund its exploration programs and fulfill short-term expense commitments.

Significant accounting judgements and estimate

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgement applied in the preparation of the Financial Statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The going concern assumption

  The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- Recognition of deferred tax assets and liabilities

  In assessing the probability of realizing income tax assets and liabilities, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

- The determination of the Company's functional currency

The functional currency of the Company is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

Transactions with related parties

During the year ended June 30, 2017, RG Mining Investments Inc. ("RGMI") charged the Company $36,000 (2016 - $34,000) for management and administrative fees. RGMI provides management and administrative services to the Company and provides the services of the Company's personnel. The agreement providing the services had a term of 1 year and expired May 31, 2013. It was automatically renewed for a successive 12-month period and is automatically renewed for successive 12-month periods unless terminated upon 60 days prior notice by either party or upon the criminal conviction, death, disability, incapacity, bankruptcy, insolvency, gross negligence, gross dereliction of duty or gross misconduct, of RGMI or the personnel it provides to the Company. The Company's CEO and CFO beneficially own RGMI.

During the year ended June 30, 2017, the Company incurred board of directors' fees and expenses of $20,000 (2016 – $nil).

As at June 30, 2017, amounts owing to a director is $nil (2016 - $18,000) and to a company controlled by the Company's CEO and CFO is $57,000 (2016 - $27,500) of which, $nil (2016 - $3,500) is related to a demand loan payable and $57,000 (2016 - $24,000) is related to the administration and personnel fees payable. The amounts owing are unsecured, interest-free and have no fixed terms of repayment.

in October 2017, the Company paid $31,500 of the outstanding amount of $57,000, to RGMI.

Risks and uncertainties

Continuance of operations and going concern

The annual consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company had a working capital deficit of $245,242 as at June 30, 2017 (2016 - $169,941), and an accumulated deficit of $7,658,964 (2016 - $8,811,231).

The ability of the Company to continue as a going concern and meet its commitments as they become due, including exploration and development of its mineral properties, when applicable, is dependent on the Company's ability to attain profitable operations and/or obtain the necessary financing. Management is currently assessing alternatives to raising additional funding, which may include additional equity offerings. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management will continue to curtail even limited Company operations. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The business of mining exploration involves a high degree of risk and there is no assurance that current or future exploration projects will result in future profitable mining operations. The Company has no source of revenue, but continues to have cash requirements to meet its administrative overhead and pay its debts and liabilities.

The annual consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern, which could be material.

Operational

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the following risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

Exploration and development risk

Caracara's business of exploring mineral resources involves a variety of operational, financial and regulatory risks that are typical in the mining industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and Caracara's common shares should be considered speculative.

Financing risk

There can be no assurance that any funding required by the Company will become available, and, if so, that it will be offered on reasonable terms or that the Company will be able to secure such funding through third party financing or cost sharing arrangements. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or projects or that they can be secured on competitive terms

Political and demographic risk

The Company and its wholly-owned subsidiary, Solex, will be subject to political instability and changes in government policies, laws and regulations in Peru. Any changes in regulations or shifts in political conditions are beyond the Company's control and may adversely affect the Company's and/or Solex's business, including, income taxes, expropriation of property, employment, land use, water use, environmental legislation and exploration safety.

Segregation of duties

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to the Company's small size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its financial statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

Outstanding Share Data

As at October 19, 2017, the Company had 51,895,835 common shares outstanding.

General

The Company also discloses information related to its activities on SEDAR at www.sedar.com.

Caracara Silver Inc.

Interim MD&A -

Quarterly Highlights

Three months ended March 31, 2019

May 22, 2019

Caracara Silver Inc.
Interim MD&A -
Quarterly Highlights
Three months ended March 31, 2019

This interim management discussion and analysis - quarterly highlights ("Interim MD&A") has been prepared based on information available to Caracara Silver Inc. ("Caracara" or the "Company") as at May 22, 2019. This Interim MD&A updates disclosure previously provided in the Company's Annual MD&A, up to the date of this Interim MD&A and should be read in conjunction with the Company's unaudited interim consolidated financial statements and the related notes as at and for the three and nine months ended March 31, 2019 and 2018, the Company's audited consolidated financial statements for the years ended June 30, 2018 and 2017 (together, the "Consolidated Financial Statements"), and the Company's Annual MD&A for the year ended June 30, 2018. The Consolidated Financial Statements have been prepared by management in accordance with International Accounting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this Interim MD&A has also been prepared by management and is consistent with the data contained in the Financial Statements. Additional information relating to the Company may be found under its profile on SEDAR at www.sedar.com or on its website at www.caracarasilver.com.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the financial statements.

As the Company is a Venture Issuer (as defined under under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), the Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures ("DC&P) and/or ICFR, as defined in NI 52-109, **nor has it completed such an evaluation**. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CAUTIONARY NOTE

This document may contain or may refer to forward-looking information. Such forward-looking information includes, among other things, statements regarding targets, estimates and/or assumptions in respect of future production, capital costs and future economic, market and other conditions, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to: exploration and development costs varying significantly from estimates; inflation; fluctuations in commodity prices; delays in the development of the any project caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise; termination or revision of any debt financing; failure to raise additional funds required to finance the completion of a project; and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no responsibility to update them or revise them to reflect new events or circumstances, except as required by law.

Caracara Silver Inc.
Interim MD&A -
Quarterly Highlights
Three months ended March 31, 2019

Corporate

Caracara Silver Inc. (the "**Company**" or "**Caracara**") was incorporated under the laws of British Columbia on December 3, 2009.

The principal business activity of the Company is the acquisition, exploration and development of mineral properties in Peru. The Company's main and registered office is located at 401 Bay Street, Suite 2702, Toronto, Ontario, Canada, M5H 2Y4.

The unaudited interim financial statements as at and for the 3 and 9 months ended March 31, 2019 and 2018, were approved for issuance by the Board of Directors on May 22, 2019.

The Company's only property has been sold to Alcon Exploration Corp. ("Alcon") and as such, the Company trades on the NEX market of the TSX Venture Exchange ("**TSXV**") under the symbol "SILV.H". In concert with the Sale, the Company commenced the wind-up and dissolution of Solex and on January 31, 2019, the Company received the final certificate of dissolution from the Superintendent of National Registrations for Peru.

Financial condition

During the quarter ended March 31, 2019, the Company's net assets decreased by $46,935, with decreases to cash and HST recoverable of $41,840, supplemented by net increases to current liabilities of $5,095.

The Company's cash balance decreased by $40,987, entirely the result of cash used for operations.

Commitments, liquidity and capital resources

The Company does not currently have any project commitments nor space-rental commitments. Its head office and administration is provided by RG Mining Investments Inc. (see "*Related-party transaction and balances*" section of this Interim MD&A).

As at March 31, 2019, the Company had cash balances totalling $1,019,528 and working capital of $980,174.

Related-party transactions and balances

During the quarter, the Company incurred and paid management fees to RGMI in the amount of $30,000.

As at March 31, 2019, there are no amounts due to related parties.

Outstanding Share Data

As at May 22, 2019, the Company had the following capitalization:

Security	Number
Common shares	24,402,901
Warrants	16,213,333

SCHEDULE "E"
RESULTING ISSUER PRO FORMA FINANCIALS

(PLEASE SEE ATTACHED)

Xtraction Services Inc.

Unaudited Pro Forma Consolidated Financial Statement

(Expressed in United States Dollars)

March 31, 2019

Xtraction Services Inc.

Pro Forma Consolidated Statement of Financial Position

As at March 31, 2019

(Unaudited - Expressed in United States Dollars)

		Xtraction At March 31, 2019	CaraCara At March 31, 2019	Note Ref.	Pro Forma Adjustments	Pro Forma Consolidated
		$	$		$	$
Assets						
Current assets						
Cash		690,589	784,252	3 (a)	4,100,000	5,574,841
Inventories		95,187				95,187
Prepaid and other current assets		167,677				167,677
Accounts receivable		24,868	3,508			28,376
Total current assets		978,321	787,760		4,100,000	5,866,081
Investments			57,692			57,692
Servicing Equipment		2,307,358			-	2,307,358
Prepaid Servicing Equipment		2,799,952				2,799,952
Property, Plant & Equipment		8,792				8,792
Intangible Asset		561,609			-	561,609
Total assets		6,656,032	845,452		4,100,000	11,601,484
Liabilities						
Current liabilities						
Accounts payable and other liabilities		94,274	11,650		-	105,924
Loans - short term		900,000				900,000
Accrued expenses		455,415		3 (b)	(288,009)	167,406
Unearned revenue		509,519				509,519
Amounts due to related parties		538,278		3 (b)	(8,000)	530,278
Warrant derivative liabilities		582,519		3 (c)	3,070,479	3,652,998
Redeemable common stock		650,000				650,000
Total current liabilities		3,730,005	11,650		2,774,470	6,516,125
Loans - Long-term		3,913,019		3 (b)	(69,069)	3,843,950
Embedded Derivative liabilities		4,397,890	-	3 (c)	(4,397,890)	-
Total liabilities		12,040,914	11,650		(1,692,489)	10,360,075
Equity						
Share capital	Common A	3,183			(3,183)	-
	Common B	68			(68)	-
	Additional Paid-in Capital	5,969,310			(5,969,310)	-
	Warrant reserve		438,015		(438,015)	-
	Share Capital		6,173,699		(6,173,699)	-
	Share Capital - Resulting Issuer			4	12,598,852	12,598,852
Deficit		(11,357,443)	(5,777,912)		5,777,912	(11,357,443)
Total equity		(5,384,882)	833,802		5,792,489	1,241,409
Total liabilities and equity		6,656,032	845,452		4,100,000	11,601,484

See accompanying notes to the unaudited pro-forma consolidated financial statement.

1. Basis of presentation

The accompanying unaudited pro forma consolidated statement of financial position of Xtraction Services, Inc. ("Xtraction") has been prepared by management to reflect the amalgamation of Xtraction with Caracara Silver Inc. ("Caracara") after giving effect to the proposed business combination (the "Transaction") as described in Note 2. The unaudited pro forma consolidated financial statement should be read in conjunction with related historical financial information including the notes thereto of the Company, as referred to above and included in the Company's listing statement filed with the CSE in connection with the Transaction.

The unaudited pro forma consolidated statement of financial position has been prepared using accounting policies and practices consistent with those used in the preparation of Caracara's and Xtraction's recent financial statements, both of which are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. In the opinion of management, the unaudited pro forma consolidated financial statement include all adjustments necessary for fair presentation.

Certain significant estimates have been made by management in the preparation of this pro forma consolidated financial statement. Caracara was not considered an operating business and the Transaction has been structured as a reverse recapitalization with Xtraction being the surviving Company.

The unaudited pro forma consolidated statement of financial position as at March 31, 2019 has been compiled from:

- The statement of financial position of Caracara as at March 31, 2019 obtained from the unaudited interim financial statements of Caracara for the three months ended March 31, 2019.
- The statement of financial position of Xtraction as at March 31, 2019 obtained from the unaudited interim financial statements of Xtraction for the three months ended March 31, 2019.

The unaudited pro forma consolidated statement of financial position has been prepared as if the transaction had occurred as of March 31, 2019. All Canadian-denominated assets, liabilities and equity accounts have been converted at $1.30CAD for each $1.00USD. Any amounts of other comprehensive income or loss resulting from the translation of Canadian dollars to United States dollars are not separately presented.

The unaudited pro forma consolidated statement of financial position has been prepared for illustration purposes only and may not be indicative of the combined results or financial position had the Transaction been in effect at the date indicated. This statement may not be useful in predicting the future financial condition of the combined company and the actual financial position may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

2. Transaction

On August 13, 2018, Caracara and Xtraction entered into a letter of intent (the "LOI"), as amended on September 18, 2018, October 29, 2018, November 29, 2018, January 15, 2019 and March 5, 2019 pursuant to which Caracara, through a wholly-owned subsidiary to be incorporated under the laws of the State of Delaware at a later date, agreed to acquire all of the issued and outstanding common shares (the "Xtraction Shares"), stock options (the "Xtraction Options") and warrants (the "Xtraction Warrants") of Xtraction.

2. Transaction (continued)

Pursuant to the LOI, the holders of the issued and outstanding Xtraction Shares would receive for each Xtraction Share such number of common shares of Caracara (each a "Caracara Share") determined in accordance to the terms of the LOI.

On March 22, 2019, Caracara and Xtraction entered into a definitive agreement (the "Merger Agreement") pursuant to which the parties agreed to the terms and conditions in respect of the Transaction. The Merger Agreement provides for various representations and warranties of Caracara, on behalf of itself and the Caracara subsidiaries, and Xtraction, to the other party with respect to themselves and their respective businesses. These representations and warranties relate to, among other things: organization and corporate capacity, subsidiaries, capitalization, convertible securities, dissolution, approvals and consents, authorizations and binding effect, litigation, judgements, financial statements, compliance (including stock exchange and securities laws compliance) and absence of changes.

The completion of the Transaction is subject to certain conditions precedent that must be satisfied prior to the closing date of the Transaction ("Transaction Closing Date"), subject to waiver by either party for whose benefit the conditions precedent are inserted.

3. Pro forma assumptions and adjustments

(a) On March 22, 2019 and April 26, 2019, Xtraction completed a private placement of 5,882 subscription receipts (each, a "Subscription Receipt") at a price of C$1,000 per Subscription Receipt for aggregate gross proceeds of C$5,882,000. Each Subscription Receipt is, upon satisfaction of the escrow release conditions contemplated under the Subscription Receipt financing, convertible into one 10% unsecured convertible debenture of Xtraction in the principal amount of C$1,000 (each, a "Sub Receipt Debenture"). Each Sub Receipt Debenture will mature 5 years from the date of issuance, and be convertible at the election of the holder into one unit of Xtraction (each, a "Sub Receipt Unit") at a conversion price of C$1.10 per Sub Receipt Unit.

Each Sub Receipt Unit is comprised of one Xtraction Share and one Xtraction Share purchase warrant (each whole warrant, a "Sub Receipt Warrant"). Each Sub Receipt Warrant is exercisable into one Xtraction Share at a price of C$1.50 per share for a period of 5 years from the date of issuance. The Company estimates costs related to the financing to be C$560,390 resulting in net proceeds to Xtraction of C$5,321,610 or US$4,100,000.

(b) All Xtraction Series B and Series C convertible debenture holders have agreed to convert the principal and accrued interest on a liquidity event such as the Transaction. On completion of the Transaction, Series B debentures convert into common shares at a rate of US$0.60 per share. Series C debentures convert into units at a rate of C$0.94 (US$0.70) per unit. The Series C units include one common share and one purchase warrant exercisable at C$1.50 exercisable for 5-years from the date of issuance.

For the Series B convertible debentures, total principal (US$2,765,000) and accrued interest of (US$110,600) totaling US$2,875,600 were exchanged for 4,792,667 common shares of the resulting issuer.

For the Series C convertible debentures, total principal (US$3,506,000) and accrued interest of (US$185,409) totaling US$3,689,409 were exchanged for 5,270,584 common shares and 5,270,584 common share purchase warrants of the resulting issuer.

The amount of common shares the Series B and Series C will be convertible into will be greater as a result of additional interest accrued until the closing of the Transaction.

Due to the conversion of the Series B and C convertibles, the Company's adjustments include the reduction of $288,009 of accrued interest, $8,000 of accrued interest to a related party and a reduction of long-term debt by US$4,169,069, inclusive of associated debt discounts of $2,101,931. Offsetting the decrease in long-term debt was the addition of the Subscription Receipts liability discussed in 3(a).

(c) The Company reduced its Embedded Derivative Liabilities by US$4,397,890 on conversion of the Series C convertible debentures. However, this reduction was partially offset by an increase in Warrant Derivative Liability in relation to the foreign exchange derivative associated with the Series C warrants being denominated in Canadian dollars.

4. Pro forma share capital

The Company provides the following reconciliation to provide an illustration of pro forma shares outstanding on completion of the Transaction as if this occurred on March 31, 2019. Pro forma shares outstanding represent three components, most notably pre-Transaction Xtraction shares, pre-Transaction Caracara shares and new Resulting Issuer shares created by the conversion of Series B & C Convertible Debentures. Pre-Transaction Xtraction shares are exchanged to post-Transaction shares on a 1:1 basis whereas pre-Transaction Caracara shares are exchanged at a ratio of 6.262 Caracara shares per 1 Xtraction post-Transaction share. Series B & C Convertible Debentures convert into shares at ratios described in Note 3 (b).

		Xtraction At March 31, 2019 **#**	**CaraCara** At March 31, 2019 **#**	**Note Ref.**	**Pro Forma Adjustments** **#**	**Pro Forma Consolidated** **#**
Common A - Xtraction		31,822,588			(31,822,588)	-
Common B - Xtraction		678,650			(678,650)	-
Share Capital - Caracara	(1 Xtraction share exchanged for 6.262 Caracara shares)		24,402,901		(20,505,919)	3,896,982
Share Capital - Resulting Issuer	Common A & B				32,501,238	32,501,238
Share Capital - Resulting Issuer	Convertible Debentures conversion to equity			3 (a)	10,063,251	10,063,251
Total Shares		**32,501,238**	**24,402,901**		-	**46,461,471**