Xtraction Services Inc.

Financial Statements

For the Three and Six Months ended June 30, 2019 and 2018

(Unaudited)

(Expressed in United States Dollars)

Xtraction Services, Inc.

Table of Contents

Xtraction Services Inc.
Condensed statements of comprehensive loss
For the three and six months ended June 30, 2019 and 2018
(unaudited)
(Expressed in United States Dollars)

		Three months ended June 30,		Six months ended June 30,	
	Note	**2019**	**2018**	**2019**	**2018**
Revenue	5	$ 430,708	$ -	$ 972,025	$ -
Cost of sales	6	551,074	122,017	1,185,111	213,617
Gross loss		(120,366)	(122,017)	(213,086)	(213,617)
Administrative expenses	6	1,405,787	320,014	2,385,711	488,290
Sales and marketing expenses	6	8,514	97,432	85,647	122,669
Loss from operations		(1,534,667)	(539,463)	(2,684,444)	(824,576)
Financing expense, net		218,265	125,042	443,449	141,354
Accretion expense		459,958	294,720	912,794	453,897
Change in fair value of embedded derivatives	14	(489,099)	-	2,817,277	-
Loss on sale of property, plant and equipment	8	12,624	-	20,217	-
Loss before income tax		(1,736,415)	(959,225)	(6,878,181)	(1,419,827)
Income tax expense	17	-	-	975	-
Loss and comprehensive loss		$ (1,736,415)	$ (959,225)	$ (6,879,156)	$ (1,419,827)
Loss per share / unit - basic and diluted [1]		$ (0.05)	$ (0.04)	$ (0.21)	$ (0.06)
Weighted average shares / equity interest outstanding:					
Basic and diluted (post split)		33,085,489	25,000,000	32,794,977	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 June 30, 2019 and December 31, 2018
(Expressed in United States Dollars)

	Note	(unaudited) June 30, 2019	December 31, 2018
Assets			
Non-current assets			
Servicing equipment	7	$ 2,726,501	$ 2,479,196
Prepaid servicing equipment	7	2,030,491	2,770,397
Property, plant and equipment	8	8,025	65,678
Intangible asset	9	523,317	599,900
Total non-current assets		5,288,334	5,915,171
Current assets			
Inventories	11	95,187	96,166
Prepaid and other current assets	10	192,900	109,961
Trade and other receivables, net	12	45,180	36,421
Cash		419,729	534,148
Total current assets		752,996	776,696
Total assets		$ 6,041,330	$ 6,691,867
Shareholders' deficit and liabilities			
Capital and reserves			
Class A common stock	13	$ 3,258	$ 3,183
Class B common stock	13	68	68
Additional paid-in capital	13	6,604,205	5,317,232
Accumulated deficit		(13,093,858)	(6,214,702)
Total deficit		(6,486,327)	(894,219)
Non-current liabilities			
Loans and borrowings, long-term	14	1,357,965	4,216,627
Embedded derivative liabilities	14	3,920,775	1,091,514
Total non-current liabilities		5,278,740	5,308,141
Current liabilities			
Loans and borrowings, short-term	14	3,865,000	7,658
Trade and other payables	15	75,966	210,267
Accrued expenses	16	809,110	219,418
Unearned revenue	5	164,976	1,021,917
Amounts due to related parties	19	779,485	118,654
Warrant derivative liabilities	13	904,380	50,031
Redeemable common stock	14	650,000	650,000
Total current liabilities		7,248,917	2,277,945
Total liabilities		12,527,657	7,586,086
Total shareholders' deficit and liabilities		$ 6,041,330	$ 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 six months ended June 30, 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
Fair value allocation of loan borrowing proceeds	14	-	1,410,526	-	-	-	-	-	-	1,410,526
Incentive compensation	18	-	33,075	-	-	-	-	-	-	33,075
Net loss		-	-	-	-	-	-	-	(1,419,827)	(1,419,827)
Balance at June 30, 2018		25,000,000	$ 3,632,423	-	$ -	-	$ -	$ -	$ (1,794,884)	$ 1,837,539
Balance at January 1, 2019		-	$ -	31,822,588	$ 3,183	678,650	$ 68	$ 5,317,232	$ (6,214,702)	$ (894,219)
Issuance of Class A common stock	13	-	-	757,500	75	-	-	626,798	-	626,873
Fair value allocation of loan borrowing proceeds	14	-	-	-	-	-	-	260,745	-	260,745
Incentive compensation	18	-	-	-	-	-	-	399,430	-	399,430
Net loss		-	-	-	-	-	-	-	(6,879,156)	(6,879,156)
Balance at June 30, 2019		-	$ -	32,580,088	$ 3,258	678,650	$ 68	$ 6,604,205	$(13,093,858)	$ (6,486,327)

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 and six months ended June 30, 2019 and 2018
(unaudited)
(Expressed in United States Dollars)

	Note	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from operating activities			
Loss for the period		$ (6,879,156)	$ (1,419,827)
Adjustments to reconcile loss to net cash flows:			
Depreciation and amortization	7,8,9	293,765	156,664
Gain on sale of servicing equipment	7	(257,535)	-
Loss on sale of property, plant and equipment	7,8	20,216	-
Incentive compensation expense	18	399,430	33,075
Warrants and debentures issued for services	13,14	742,676	-
Finance and accretion expense	14	937,597	474,583
Change in fair value of embedded derivative liabilities	14	2,817,277	-
		(1,925,730)	(755,505)
Adjustments to operating assets and liabilities:			
Decrease in trade and other receivables	12	(8,759)	(30,000)
Decrease (increase) in inventories	11	979	(386,224)
(Increase) in prepaid and other current assets	10	6,732	(2,078)
(Decrease) increase in trade and other payables	15	(142,374)	74,213
Increase (decrease) in accrued expenses	16	522,043	71,182
Increase (decrease) in amounts due to related parties	19	374,748	(41,986)
Net cash flows used in operating activities		(1,172,361)	(1,070,398)
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment	8	46,380	-
Purchases of servicing equipment	7	(38,774)	(556,965)
Net cash flows provided by (used in) investing activities		7,606	(556,965)
Cash flows from financing activities			
Proceeds from loans and borrowings	14	1,100,000	2,765,000
Repayment of debt	14	(49,664)	-
Payment of deferred financing costs	14	-	(158,291)
Net cash flows provided by financing activities		1,050,336	2,606,709
Net increase (decrease) in cash		(114,419)	979,346
Cash at beginning of the period		534,148	848,047
Cash at end of the period		$ 419,729	$ 1,827,393
Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 521	$ 77,858
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	$ 381,913	$ 180,000
Discount on loan borrowings proceeds	13	228,183	1,253,875
Issuance of convertible debt, net of discount of $163,563	13	55,305	-
Prepaid debt issuance costs - warrants issued	13	866,333	-
Servicing equipment sold and reduction to deferred revenue	5	846,109	-

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. 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 1880 Century Park East, Suite 250, Los Angeles, California 90067.

The accompanying financial statements have been approved by the Company's board members and are authorized for issuance as of September 13, 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 $13,093,858 and $6,214,702 as of June 30, 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. 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 June 30, 2019:				
Liabilities:				
Warrant derivative liabilities (note 13)	$ -	$ -	$ 904,380	$ 904,380
Embedded derivative liabilities (note 14)	-	-	3,920,775	3,920,775
	$ -	$ -	$ 4,825,155	$ 4,825,155
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 June 30, 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, brokers and service providers (note 13)	866,333	-	866,333
Net change in fair value (unrealized)	(11,984)	2,829,261	2,817,277
Balance at June 30, 2019	$ 904,380	$ 3,920,775	$ 4,825,155

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 June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Revenue source:				
Equipment sales	$ 333,149	$ -	$ 849,598	$ -
Lease or royalty sales	97,559	-	122,427	-
	$ 430,708	$ -	$ 972,025	$ -
Timing of revenue recognition under IFRS 15 from contracts with customers:				
Products and services transferred at a point in time	$ 333,149	$ -	$ 849,598	$ -

The Company's largest source of revenue resulted from the sale of equipment to a single customer. At June 30, 2019 and December 31, 2018 the Company had an unsatisfied performance obligation of $164,976 and $1,021,917, respectively, 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 June 30, 2019.

(Expressed in United States Dollars)

	Year ended December 31,	
	2019	2020
Revenue expected to be recognized on:		
Royalty contracts	$ 150,000	$ 150,000
Lease contracts	67,375	46,003
	$ 217,375	$ 196,003

The lease royalty arrangement was effective June 30, 2018, and 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.

The lease arrangement was effective May 31, 2019, and requires fixed minimum monthly payments with no variable consideration through April 30, 2020. The lease also grants the lessee an end of term purchase option of $301,750 for the underlying equipment.

Revenue concentration

All of the Company's revenue is derived from customers in the United States with one customer representing 83% and 90% of the Company's recognized revenue in the three and six months ended June 30, 2019, respectively.

(6) Expenses by nature

The following tables presents an analysis of expense by nature:

(Expressed in United States Dollars)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Cost of sales:				
Compensation and benefits	$ 65,273	$ 22,745	$ 145,928	$ 29,082
Depreciation expense	109,044	49,861	217,182	80,081
Amortization of intangible	38,292	38,291	76,583	76,583
Equipment purchases	267,508	123	616,919	9,606
Supplies and materials	28,719	287	57,572	686
Maintenance and repair costs	14,187	1,884	21,336	1,884
Other expenses	28,051	8,826	49,591	15,695
	$ 551,074	$ 122,017	$ 1,185,111	$ 213,617
Administrative expenses:				
Compensation and benefits	$ 19,682	$ 59,005	$ 44,386	$ 59,005
Incentive compensation	(45,894)	11,830	399,430	33,075
Contractors and outside services	52,800	94,173	138,402	151,133
Management fee	86,000	-	174,400	-
Professional fees	1,246,495	70,062	1,417,510	99,032
Office rent, utilities and expenses	12,034	11,875	36,989	24,158
Travel meals and entertainment	5,433	46,281	27,826	68,447
Other expenses	29,237	26,788	146,768	53,440
	1,405,787	$ 320,014	2,385,711	$ 488,290
Sales and marketing expenses:				
Compensation and benefits	$ 4,014	$ -	$ 20,165	$ -
Contractors and outside services	-	34,750	-	51,417
Professional fees	(4,500)	4,500	45,833	7,000
Advertising and marketing	1,045	35,375	11,153	41,345
Trade shows	7,209	22,558	7,209	22,558
Other expenses	746	249	1,287	349
	$ 8,514	$ 97,432	$ 85,647	$ 122,669

(7) Servicing equipment

The following table below presents the change in carrying value of the Company's servicing equipment from January 1, 2019 through June 30, 2019:

	Balance at January 1, 2019	Additions	Sales	Balance at June 30, 2019
Cost or valuation				
Extraction equipment	$ 2,046,163	$ 384,331	$ -	$ 2,430,494
Ancillary extraction equipment	6,268	4,493	-	10,761
Pre-processing equipment	17,118	14,452	-	31,570
Post-processing equipment	444,132	127,069	(97,597)	473,604
Distillation equipment	176,698	3,333	-	180,031
Isolate equipment	-	3,000	-	3,000
Analytical equipment	43,661	30,000	(19,759)	53,902
Vacuums	2,033	4,349	-	6,382
Total cost or valuation	$ 2,736,073	$ 571,027	$ (117,356)	$ 3,189,744
Accumulated depreciation	$ (256,877)	(213,501)	7,135	$ (463,243)
Net book value	$ 2,479,196	$ 357,526	$ (110,221)	$ 2,726,501

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 and six months ended June 30, 2019. Additionally the Company sold $19,759 of previously capitalized equipment back to a related party vendor and recognized a loss of $12,624 on the sale, within the condensed statements of comprehensive loss for the three and six months ended June 30, 2019.

(Expressed in United States Dollars)

The cost of servicing equipment includes $1,243,138 and $835,605 subject to revenue generated from operating leases at June 30, 2019 and December 31, 2018, respectively.

The Company sold $504,059 of equipment, that was recorded in prepaid servicing equipment, directly to customers in January, April and May 2019 prior to the servicing equipment being available for use. The carrying value of prepaid service equipment at June 30, 2019 and December 31, 2018 was $2,030,491 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.

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 June 30, 2019:

	Balance at January 1, 2019	Additions	Sale	Balance at June 30, 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)	(3,680)	7,739	$ (2,579)
Net book value	$ 65,678	$ (3,680)	$ (53,973)	$ 8,025

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 June 30, 2019:

(Expressed in United States Dollars)

	Balance at January 1, 2019	Additions/ (Disposals)	Balance at June 30, 2019
Cost or valuation			
Purchase exclusivity and intellectual property rights	$ 765,830	$ -	$ 765,830
Accumulated amortization	$ (165,930)	(76,583)	$ (242,513)
Net book value	$ 599,900	$ (76,583)	$ 523,317

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:

	June 30, 2019	December 31, 2018
Prepaid insurance	$ 71,539	$ 54,372
Prepaid consulting services	75,000	45,333
Security deposit	9,900	3,500
Other	36,461	6,756
	$ 192,900	$ 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 servicing equipment for customers or for repair orders. The carrying value of spare parts inventory as of June 30, 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:

	June 30, 2019	December 31, 2018
Trade receivables	$ 45,180	$ 6,421
Other receivable	-	30,000
	$ 45,180	$ 36,421

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

(13) Shareholder deficit

At June 30, 2019 and December 31, 2018 the Company had 225,000,000 authorized and 32,580,088 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.

Share issuances

In January 2019, the Company entered into an agreement with an investment advisor to issue Class A common shares in exchange for services rendered in raising debt subscriptions. The investment advisor earns shares equal to $15,000CAD ($12,300) over a period of 24 months at a price of $1.10CAD ($0.82). No shares have been issued as of June 30, 2019. The Company has recorded $67,650 as prepaid debt issuance costs with an offset to accrued expenses within the statements of financial position.

In April 2019, the Company issued 620,000 shares of Class A common stock valued based on the fair value of the Company's common stock on the date of grant at $0.83 per share to investment advisors in connection with services rendered for transaction advisory guidance and structuring and the raise of debt subscriptions. The fair value of the Company's stock was based on a recent transaction approach. The Company recorded $415,000 as professional fess within the statements of comprehensive loss related to transactional advisory services, and $99,600 as prepaid debt issuance costs within the statements of financial position related to the debt subscription raise.

In May 2019, the Company issued 92,045 shares of Class A common stock valued based on the fair value of the Company's common stock on the date of grant at $0.82 per share to third party service provider for services to be rendered in future months. The fair value of the Company's stock was based on a recent transaction approach. The Company recorded $75,000 as a prepaid expense within the statements of financial position and will amortize the cost to professional fees within the statements of comprehensive loss as services are rendered.

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. The Company recorded $37,273 as professional fees within the statements of comprehensive loss in the three and six months ended June 30, 2019.

Warrant derivative liabilities

The fair value of warrant derivative liabilities at June 30, 2019 and December 31, 2018 was $904,380 and $50,031, respectively,

In March and April 2019 the Company issued 774,308 warrants to third party investment advisors and brokers for services rendered in raising debt subscriptions with 374,308 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 has a two year term and a $1.10CAD ($0.82) exercise price. The Company recorded $561,259 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.

In April and May 2019, the Company issued 536,818 warrants to an investment advisor and third party service provider in connection with services rendered for transaction advisory guidance and consulting services to be rendered in future periods, with terms of two or five years and exercise price of $1.10CAD ($0.82) per share that vested immediately upon their issuance. The Company recorded $290,403 of professional fees for transactional advisory services, within the statements of comprehensive loss, and $14,671 of prepaid expenses for future consulting services, within the statements of financial position. Both amounts were reflected as 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.

(Expressed in United States Dollars)

The grant date fair value of the 1,311,126 warrant issuances in the six months ended June 30, 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	2.2% - 2.4%
Expected term	2 - 5 years
Exercise price	$ 0.82 - 1.13

At June 30, 2019 the warrant derivative liabilities were re-valued with the 2019 warrant derivative liability issuances value remaining unchanged at June 30, 2019. The warrant derivative liabilities issued in 2018 were re-valued at $38,047, with the change in fair value of $(11,984) reflected in the condensed statements of comprehensive loss for the three and six months ended June 30, 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 June 30, 2019:

	2019 Issuances	2018 Issuances
Expected dividend yield	-	-
Expected volatility	90.0%	90.0%
Risk-free interest rate	1.8%	1.8%
Expected term	1.7 - 4.8 years	0.2 years
Exercise price	$ 0.82 - 1.13	$ 0.70

The following table summarizes warrant activity from January 1, 2019 through June 30, 2019:

	Number of warrants	Weighted average exercise price per share
Outstanding at January 1, 2019	1,140,012	$ 0.66
Granted	1,311,126	$ 0.82
Outstanding at June 30, 2019	2,451,138	$ 0.75

(Expressed in United States Dollars)

(14) Loans and borrowings

The following table presents loans and borrowings outstanding:

Description	Maturity date	Interest rate	June 30, 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	-
Archytas	October 19, 2019	18.0%	200,000	-
			1,700,000	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%	218,869	-
Vehicle loan	July 24, 2024	6.3%	-	49,664
			8,189,869	6,920,664
Less:				
Unamortized discounts, debt issuance costs and prepaid offering costs (1)			(2,966,904)	(2,696,379)
			$ 5,222,965	$ 4,224,285
Non-current			$ 1,357,965	$ 4,216,627
Current			$ 3,865,000	$ 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.

The following table below shows the change in carrying value of the Company's loans and borrowings from January 1, 2019 through June 30, 2019:

(Expressed in United States Dollars)

	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	1,100,000	-	-	(228,183)	871,817
Repayments	-	-	(49,664)	-	(49,664)
Issuance of convertible debt	-	218,869	-	(163,563)	55,306
Prepaid offering costs	-	-	-	(816,376)	(816,376)
Amortization and accretion of debt issuance and debt discount costs	-	-	-	937,597	937,597
Balance at June 30, 2019	$ 1,700,000	$ 6,489,869	$ -	$(2,966,904)	$ 5,222,965

Term loans

In January, February, March and April 2019 the Company received additional funding of $1,100,000 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 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, 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 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 and April 2019, the Company issued CAD$294,000 ($218,869) 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 $55,305 as prepaid debt issuance costs, within the statements of financial position. The debt discount of $163,563 is being amortized to interest expense over the term of the debt under the effective interest rate method.

Embedded derivative liabilities

At June 30, 2019 the embedded derivative liabilities were re-valued at $3,920,775, with the change in fair value of $(477,115) and $2,829,261 reflected in the condensed statements of comprehensive loss for the three and six months ended June 30, 2019, respectively. The

(Expressed in United States Dollars)

Company performed a black-scholes model while probability weighting the expected conversion price.

The fair value of the embedded derivative liabilities were determined using the following assumptions as of June 30, 2019:

Expected dividend yield		-
Expected volatility		90.0%
Risk-free interest rate		1.8%
Expected term		0.2 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:

	June 30, 2019		December 31, 2018	
Trade payables	$	65,434	$	182,155
Credit card payable		10,532		28,112
	$	75,966	$	210,267

(16) Other current liabilities

The following table presents accrued expenses:

	June 30, 2019		December 31, 2018	
Accrued interest	$	424,959	$	147,059
Accrued professional fees		327,272		7,195
Accrued compensation, benefts and related taxes		6,417		18,988
Accrued insurance		48,454		41,071
Accrued other		2,008		5,105
	$	809,110	$	219,418

(Expressed in United States Dollars)

(17) Income taxes

Income tax expense

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	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 June 30, 2019 was 26.53%, compared to 0% for the three and six months ended June 30, 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 and six months ending June 30, 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 June 30, 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	(1,055,241)	0.60	
Outstanding at June 30, 2019	2,512,652	$ 0.60	9.0
Exercisable and vested at June 30, 2019	857,523	$ 0.60	9.0

In January, February and June 2019, 1,055,241 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 June 30, 2019 there was approximately $314,000 of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 2.0 years.

The Company recorded compensation expense for restricted stock awards and stock options, including non-cash compensation related to cancelled restricted units, of $(45,894) and $11,830 for the three months ended June 30, 2019 and 2018, respectively, and $399,430 and $33,075 for the six months ended June 30, 2019 and 2018, respectively.

(Expressed in United States Dollars)

(19) Related party transactions

The following presents balances and transactions between the Company and other related parties as of June 30, 2019 and December 31, 2018, respectively, and for the three and six month periods ended June 30, 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 June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Salaries, guaranteed payments, benefits	$ 123,904	$ 67,350	$ 243,618	$ 77,025
Incentive compensation	17,246	-	315,218	-
	$ 141,150	$ 67,350	$ 558,836	$ 77,025

Related party other receivable

	June 30, 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	71,168	-	71,168
Expenses	-	3,839	3,839
Inventory and prepaid equipment purchases	-	501,535	501,535
Less payments to related parties	(88,034)	(598,301)	(686,335)
Amounts due to related parties at June 30, 2018	$ 87,169	$ -	$ 87,169
Amounts due to related parties at January 1, 2019	$ 13,000	$ 105,654	$ 118,654
Interest expense	138,744	-	138,744
Management fee	174,400	-	174,400
Operating expenses	-	64,604	64,604
Prepaid equipment purchases	-	286,083	286,083
Less payments to related parties	-	(3,000)	(3,000)
Amounts due to related parties at June 30, 2019	$ 326,144	$ 453,341	$ 779,485

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%

(Expressed in United States Dollars)

of the enterprise value of such transaction. As of June 30, 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:

	June 30, 2019	December 31, 2018
Archytas:		
Term loans (note 14)	$ 1,700,000	$ 600,000
Series B debentures (note 14)	200,000	200,000
Accrued interest	151,744	13,000
	$ 2,051,744	$ 813,000

The carrying value of the above loans and borrowings were reduced by discounts at June 30, 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 and April 2019, the Company entered into rental lease agreements with Carolina Botanical Development LLC ("CBD") to lease extraction machines 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 the March lease 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 June 30, 2019, the Company had current assets of $752,996 and current liabilities of $7,248,917. All current liabilities are due within one year. At June 30, 2019 the Company also has loans and borrowings of $8,189,869 of which $850,000 are due in 2019, $7,121,000 are due in 2020 and $218,869 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

Warrant issuances

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.