

Xtraction Services Reports Third Quarter 2019 Financial Results

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LOS ANGELES--(BUSINESS WIRE)--November 28, 2019--Xtraction Services Holding Corp., (“Xtraction Services”, “XS” or the “Company”) (CSE:XS), a specialty finance company engaged in equipment leasing in the United States, announced today results for the quarter ending September 30, 2019 (“Q3/19”). The Company’s unaudited interim condensed Financial Statements (“FS”) and Management Discussion & Analysis (“MDA”) are available under the Company’s profile on www.sedar.com. All figures are expressed in United States dollars (\$) unless otherwise stated.

Q3/19 Highlights:

- **Commenced trading on the Canadian Securities Exchange (“CSE”)** upon the successful completion of the reverse takeover transaction (“RTO”) with Caracara Silver and listed on the CSE under the symbol “XS”
- **Increased Revenues** to \$0.96 million in the quarter, compared to \$63.9 thousand for the same period of the previous year (“Q3/18”)
- **Improved Gross Profits** of \$0.12 million in the quarter, compared to a gross loss of \$0.18 million in Q3/18
- **Reduction in Operating Expenses** to \$0.62 million in the quarter, compared to \$1.71 million for Q3/18
- **Improvement in Realized Losses** of \$0.41 million in the quarter, compared to a loss of \$2.30 million for Q3/18
- **Cash on hand at September 30, 2019**, of \$4.93 million (working capital of \$2.21 million)

Additional Highlights:

- **Puritix LLC Lease Agreement:** The Company amended its lease terms with Puritix, a Kentucky-based cannabidiol processor, and was able to start invoicing four (4) months ahead of schedule
- **Insider Buying:** Archytas Ventures LLC (“Archytas”, an investment company controlled by insiders of XS) purchased common shares of XS in the open market
- **Halo Labs Inc. (“Halo”) Sale-Leaseback Agreement:** The Company signed a sale-leaseback agreement with Halo, a leading cannabis extraction company that develops and manufactures quality cannabis oils and concentrates operating in California, Oregon and Nevada

David Kivitz, Chief Executive Officer of XS, commented, “We are pleased to report our Q3/19 financials which show increased revenues, improved results and a reduction in operating expenses as a result of streamlining the cost structure of the business. With the majority of costs associated with the RTO transaction realized in Q3/19, we should continue to see financial and operational improvements into the fourth quarter.”

“We were also very pleased to complete the leasing agreement with Puritix, a Kentucky based hemp biomass processor and a sale-leaseback agreement with Halo Labs, a leading cannabis extraction company operating in California, Oregon and Nevada. We continue to work closely with potential customers on new lease initiatives and look to provide updates on our business development strategy as we progress.”

Outlook

Xtraction Services continues to assess numerous leasing opportunities and intends to focus on pursuing those that align with its growth objectives, primarily in the United States. Target leasing opportunities will mainly consist of leases to businesses underpinned by recurring, predictable revenues, sound balance sheets, and experienced management teams. The Company believes accretive opportunities exist as many companies throughout the United States lack sufficient access to capital or are burdened with restrictive sources of capital with many leading to excessive dilution. As well, the recent signing in the United States of the Agriculture Improvement Act of 2018 creates significant opportunities in Cannabidiol extraction through hemp, and as a result has bolstered Xtraction Services pipeline.

Key Financial Results

Results of Operations

The Company has established key customer relationships, some of which became revenue generating in 2018, with the remainder of its established customers generating revenue in 2019. Revenues increased by \$0.90 million in Q3/19 compared to Q3/18, mainly due to the recognition of the present value of non-cancelable rentals associated with financing leases recorded in the quarter.

The Company realized a gross profit of \$0.12 million for Q3/19, compared to a loss of \$0.18 million for Q3/18. The Company anticipates further gross margin improvement due to the curtailment of excess equipment sales and new leasing activity.

Operating expenses decreased by \$1.11 million in Q3/19 when compared to Q3/18, as a result of decreases in administrative and selling and marketing expenses, as well as streamlined professional fees, marketing and trade show expenses. The decrease in these areas were mainly due to an overall Company initiative starting in 2019 to scale back on marketing activities, specifically trade shows and the use of third-party advertising firms.

The Company realized a loss of \$0.41 million compared to a loss of \$2.30 million for Q3/18. The improvement over Q3/18 was directly related to the significant reduction in costs due to the completion of the RTO, streamlining of the Company’s future cost structure and stabilization of operating activities.

Liquidity and Capital Resources

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

For the nine months ending September 30, 2019 (“YTD/19”), the Company had working capital of \$2.21 million (compared to a working capital deficit of \$1.50 million at December 31, 2018, “YE/18”), including cash of \$4.94 million (compared to \$0.53 million as of YE/18). The increase in working capital by \$3.71 million, was primarily attributable to the proceeds received from the issuance of Sub Receipt debentures, and the generation of revenues partially offset by the funding of operations and purchase of servicing equipment. The accumulated deficit increased from \$6.22 million at YE/18 to \$13.50 million for YTD/19, due to funding operations, non-cash charges related to amortization of debt issuance costs and discounts, non-cash compensation and changes in the fair value of the derivative liabilities.

Additional information and disclosure relating to the Company’s financial position for Q3/19 is available within the FS and MDA, both of which are available under the Company’s profile at www.sedar.com.

Recent Developments

Subsequent to the quarter end, Xtraction Services amended the lease agreement with Puritix in October to provide extraction, testing and pre/post processing equipment over a term of 30 months, in exchange for a fixed price per gram of crude oil, or \$50,000 per month, whichever is greater (altered from a royalty based on a price per gram of THC free distillate). In addition, Puritix agreed to allow Xtraction Services to invoice for crude oil already produced to date (approximately \$60,000 value). Invoicing commenced in October, four (4) months earlier than originally anticipated.

As at October 24, 2019, Archytas purchased a total of 274,500 Subordinate Voting Shares (“**Common Shares**”), at an average price of CAD\$0.2068. Assuming all outstanding Proportionate Voting Shares are converted into Common Shares, Archytas' total ownership in Xtraction Services would be 11,434,075 Common Shares or approximately 24%.

On November 26th, 2019, the Company announced signing a sale-leaseback agreement with Halo against a variety of existing equipment including but not limited to; extraction, pre and post processing, freezers and security equipment, for \$600,000 payable over a 3-year term. The Leaseback Agreement allows Halo to free-up invested capital to put towards their expansion plans with no disruption to their current operations.

XS has entered into debt settlement agreements with certain consultants where pursuant to these agreements, the Company has agreed to use an aggregate of 727,273 Common Shares in the capital of the Company at a deemed price (ranging from CAD\$0.20-\$1.10 per Common Share) to settle CAD\$440,000 of outstanding debt. As well, the Company issued 1,955,000 incentive stock options to acquire common shares of the Company to certain directors, management and consultants, pursuant to the Company’s stock option plan, at an exercise price of CAD\$0.34 and which expire five (5) years from the date of issuance.

Business Model and Revenue Streams

Xtraction Services currently provides a number of equipment leasing solutions and purchase options for a variety of equipment through its cultivated relationships with original equipment manufacturers (“OEM”), who are part of the Company’s Preferred Vendor Program.

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

Equipment Leasing Solutions: Equipment leasing solutions offer customers the ability to defer large upfront capital across manageable monthly payments with flexible terms, affordable down payments and allows for the ability to upgrade equipment as needed. Term lengths range from 12-36 months and are considered on an individual basis.

Sale-Leaseback Solutions: The sale-leaseback offering allows customers the opportunity to leverage existing equipment to unlock working capital for general operating expenses, expansion equipment, and growth initiatives without any disruption to existing operations. The sale-leaseback allows Xtraction Services to diversify and scale its portfolio of customers. Sale-leasebacks are highly complementary to the Company’s existing suite of financing solutions and provide a unique opportunity for OEM partners to leverage their existing client base.

On-Site Support: Xtraction Services’ team is diverse, allowing the Company to sell its consulting services spanning all facets of the business, such as operational best practices, product formulations, staff recruitment and more.

About Xtraction Services

Founded in 2017, XS specializes in providing equipment leasing solutions in the United States to owner/operators of cannabis and hemp companies, including cultivators, oil processors, manufacturers, testing laboratories, among others. In addition, XS provides a full range of consulting services including equipment selection and procurement, through its network of preferred vendor partnerships with original equipment manufacturers and equipment distributors. Further, XS also provides a full range of all on-site support services, including staff recruitment, process development, and product formulation. This powerful dynamic provides an end-to-end solution for customers which results in recurring revenues, strong profit margins, and a proven business model for XS stakeholders.

Neither the Canadian Securities Exchange nor its Regulation Services Provider accepts responsibility for the adequacy or accuracy of this release.

Forward-Looking Information

This press release contains "forward-looking information" and may also contain statements that may constitute "forward-looking statements", collectively "forward-looking information", within the meaning of applicable Canadian securities legislation. Such forward-looking information is

not representative of historical facts or information or current condition, but instead represent the beliefs and expectations regarding future events about the business and the industry and markets in which Xtraction Services operates, as well as plans or objectives of management, many of which, by their nature, are inherently uncertain. Generally, such forward-looking information can be identified by the use of terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or may contain statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "will continue", "will occur" or "will be achieved". Forward-looking information contained herein may include but is not limited to, the ability to improve on the financial and operating performance of the Company in the fourth quarter; the ability to sign and collect on additional leasing agreements, and the timing thereof; and the ability for the Company to acquire additional funding to significantly expand its current leasing portfolio.

Forward-looking information does not guarantee future performance and involve risks, uncertainties and assumptions which are difficult to predict. Accordingly, readers should not place undue reliance on forward-looking information, which are qualified in their entirety by this cautionary statement. Xtraction Services does not undertake any obligation to release publicly any revisions for updating any voluntary forward-looking information, except as required by applicable securities law.

This press release does not constitute an offer to sell nor a solicitation of an offer to buy any of the securities in the United States. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to U.S. Persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available. Not for distribution to U.S. newswire services or for dissemination in the United States. Any failure to comply with this restriction may constitute a violation of U.S. securities laws.

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