## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of the operations of Xtraction Services Holdings Corp. ("**Xtraction Services**", the "**Company**", "**our**" or "**we**") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 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 unaudited interim condensed financial statements and the accompanying notes for the three and nine months ended September 30, 2019 and 2018 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. The interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ASB. 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 November 27, 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 Service'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 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".

Management considers the assumptions on which forward-looking information is based to be reasonable at the time the statements were made. Accordingly, actual results could differ materially from those expressed or implied within forward-looking information.

### 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 September 30, 2019 and December 31, 2018, the Company had working capital (deficiency) of $2,205,228 and $(1,501,249), respectively, and an accumulated deficit of $(13,504,200) 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

Founded in 2017, Xtraction Services is a specialty finance company that provides 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, the Company 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. The Company also provides a full range on-site support services, including staff recruitment, process development and optimization.

The Company predominantly generates equipment sales and leases through its employee sales force, who focus on equipment vendors and direct equipment users. Xtraction Services 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 Services 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).

### Recent Developments and Outlook

Xtraction Services continues to assess numerous leasing opportunities and intends to focus on pursuing those opportunities that align with its growth objectives, primarily in the US. Target leasing opportunities will primarily consist of leases to businesses underpinned by recurring, predictable revenues, sound balance sheets an experienced management team. While the Company recognizes the challenging market dynamics of the Cannabis sector, Xtraction Services remains well positioned to execute its business plan due to the fact that many Cannabis businesses require mission critical equipment to operate and grow but lack sufficient access to new capital or are burdened with expensive sources of financing.

Through 2018, the Company worked with Khrysos Global Inc. ("**Khrysos**") to distribute its Co2 and ancillary extraction equipment. Xtraction Services has since expanded its vendor network to include additional equipment manufacturers and distributors to provide tailored solutions for its expanding customer base. This was primarily driven by market sentiment 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 Cannabidiol extraction through hemp, and as a result has bolstered the Xtraction Services pipeline.

Since Xtraction Services's creation less than 2 years ago, 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.

In November 2018, Xtraction Services 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 Services 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. In third quarter of 2019, the Company reached an agreement with Puritix to reduce the quantum of equipment to be delivered in exchange for a modification to the payment terms. This modification entailed a decreased per gram cost ($0.60 per gram) calculated on the quantity of a lesser refined product (winterized crude oil) produced. With this amendment, the Company completed the delivery and final installation of the servicing equipment at Puritix and began to generate revenues in the third quarter of 2019, four months earlier than anticipated.

In March 2019, Xtraction Services entered into a lease agreement with Carolina Botanical Development LLC ("**CBD LLC**"), to lease an extraction machine and other ancillary processing equipment. CBD LLC 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 LLC. 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 the Company less $100,000 to be paid directly to the related party owner of CBD LLC and shareholder of Xtraction Services. In April 2019, the Company entered into a second rental lease agreement with CBD LLC, to lease one extraction machine. Per the terms of the agreement, the lease has a term of 13 months with expected total monthly rentals of approximately $281,000 and an end of lease balloon payment of approximately $39,000 to be received by Xtraction Services. As at September 30 2019, the Company has completed delivery and installation of the equipment and began invoicing.

Xtraction Services has also received payment from Vash Holdings and other third party customers for the sale of crude oil refinement equipment. All equipment sales were paid in full upfront with equipment deliveries predominantly completed.

On March 22, 2019, the Company entered into a definitive merger agreement with Caracara Silver Inc. ("**Caracara**") pursuant to which the Caracara would acquire all of the issued and outstanding common shares of the Company. The transaction was structured as a "reverse triangular merger" between the Company, Caracara and a wholly-owned subsidiary of Caracara to be incorporated under the laws of Delaware. On September 11, 2019 the merger became effective whereby Caracara's subsidiary acquired all of the issued and outstanding class A and class B common stock, stock options and warrants of the Company and the resulting issuer changed its name from Caracara Silver Inc. to Xtraction Services Holdings Corp. (CSE: "XS") and continued with the business of the Company.

Company management determined that the merger transaction constituted a reverse acquisition for accounting purposes whereby the Company acquired Caracara and its wholly-owned subsidiary. For accounting purposes, the Company is treated as the accounting acquirer (legal subsidiary), and Caracara is treated as the accounting acquiree (legal parent) in these financial statements. As the Company was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values. Caracara's results of operations and those of its subsidiary are included from the transaction date, September 11, 2019. The comparative figures are those of the Company prior to the reverse acquisition.

In November 2019, the Company reached a mutual agreement with an existing customer to terminate a lease arrangement due to the customer experiencing financial hardship. Xtraction Services excluded revenues from this customer in the third quarter. Working with the customer, the Company made arrangements to collect all service equipment previously held at the customer location and has sold, redeployed or recovered all equipment related to this engagement. The Company notes that approximately 95% of the associated equipment was sold or redeployed as at November 27, 2019. As a result, the Company recorded a non-cash loss on sale of servicing equipment of $126,000. Of this amount, approximately $81,000 was recognized in the third quarter with the remainder to be realized in Q4. The equipment subject to sale was considered ancillary in nature while more modern, impactful equipment was redeployed to other customers operating under volume-based revenue agreements.

In late November 2019, the Company announced announce that it has entered into a sale-leaseback agreement, with Halo Labs Inc., a leading cannabis extraction company that develops and manufactures quality cannabis oils and concentrates operating in California, Oregon and Nevada. The Leaseback Agreement was provided against a variety of existing equipment including but not limited to; extraction, pre and post processing, freezers and security equipment, for USD$600,000. The sale-leaseback is payable over a 3-year term with invoicing commencing immediately.

**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 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 equipment costs for the purchase and leasing of servicing equipment, personnel costs, including salaries and benefits, 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, management fees and other professional service costs, including legal and accounting, to support Company operations. Selling costs primarily represent marketing activities, trade shows, contractor costs and personnel costs, including a portion of salaries, benefits and marketing activities related to customer acquisition.

*Other (Income) Expense*

Other (income) expense consists 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, listing expense, losses on the sale of servicing equipment and property, plant and equipment and mark-to-market changes in the fair value of warrant liabilities and embedded derivatives within the convertible debentures ("derivative liabilities").

*Impairment Loss*

Impairment loss consists of losses recognized when the carrying value of servicing equipment exceeds its recoverable amount.

*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 unaudited interim condensed financial statements and the respective accompanying notes prepared in accordance with IFRS.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | $ 959,203 | $ 63,947 | $ 1,931,228 | $ 63,947 |
| Cost of sales | $ 837,999 | $ 242,216 | $ 2,023,110 | $ 455,833 |
| Gross profit (loss) | $ 121,204 | $ (178,269) | $ (91,882) | $ (391,886) |
| Operating expenses | $ 625,509 | $ 1,706,606 | $ 3,096,867 | $ 2,317,565 |
| Impairment loss | $ 206,100 | $ - | $ 206,100 | $ - |
| Other (income) expense | $ (300,063) | $ 415,353 | $ 3,893,674 | $ 1,010,604 |
| Loss | $ (410,342) | $ (2,300,228) | $ (7,289,498) | $ (3,720,055) |
| Loss per share - basic and diluted | $ (0.01) | $ (0.07) | $ (0.21) | $ (0.14) |
| Weighted average shares outstanding - basic and diluted (post split) | 36,295,018 | 30,928,971 | 33,974,478 | 26,998,042 |

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Total assets | $ 9,888,612 | $ 6,691,867 |
| Total liabilities | $ 6,760,408 | $ 7,586,086 |

**Three Months Ended September 30, 2019 as compared to the Three Months Ended September 30, 2018**

*Revenue*

Revenues for the three months ended September 30, 2019 were $959,203 compared with $63,947 for the three months ended September 30, 2018. The increase of $895,256 for the three months ended September 30, 2019 as compared to the same period in 2018 was primarily attributable to the recognition of the present value of non-cancelable rentals associated with financing leases recorded in quarter, and to a lesser degree increased activity in royalty arrangements and the completion of a direct equipment sale to a customer.

*Cost of Sales and Gross Profit (Loss)*

Cost of sales for the three months ended September 30, 2019 were $837,999 compared with $242,216 for the three months ended September 30, 2018. The increase of $595,783 for the three months September 30, 2019 as compared to the same period in 2018 was primarily attributable to equipment costs associated with financing leases recorded in the quarter, and to a lesser degree increased equipment purchases expense related to the direct sale of equipment to a customer, and increased compensation and related expenses for personnel providing services to customers.

Gross profit (loss) for the three months ended September 30, 2019 was a profit of $121,204 compared to a loss of $(178,269) for the three months ended September 30, 2018. The Company anticipates further gross margin improvement due to the curtailment of excess equipment sales and new leasing activity.

*Operating Expenses*

Operating expenses for the three ended September 30, 2019 were $625,509 compared with $1,706,606 for the same period in 2018. The following table presents the components of operating expenses:

| | Three months ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Administrative expenses: | | |
| Personnel and contractor costs | $ 100,021 | $ 347,006 |
| Professional fees | 234,185 | 357,031 |
| Incentive compensation | 64,553 | 634,573 |
| Occupancy expense | 9,068 | 16,589 |
| Management fee | 86,000 | - |
| Other | 49,293 | 135,522 |
| Total administrative expenses | 543,120 | 1,490,721 |
| Selling and marketing expenses: | | |
| Personnel and contractor costs | $ 47,122 | $ 78,762 |
| Marketing and trade shows | 31,704 | 108,128 |
| Professional fees | 3,250 | 23,322 |
| Other | 313 | 5,673 |
| Total selling and marketing expenses | 82,389 | 215,885 |
| | $ 625,509 | $ 1,706,606 |

The decrease in administrative and selling and marketing expenses of $1,081,097 in the three months ended September 30, 2019 as compared to the same period in 2018 was primarily attributable to a decrease in non-cash incentive compensation expense of $570,020 related to the issuance of restricted stock awards, and the cancellation of restricted units that occurred in the quarter ended September 30, 2018, as well as a decrease of $246,985 in personnel and contractor costs associated with the reduction in the use of third party contactors from 2018 to 2019, and a reduction in executive management salary, which is offset by the recognition of a management fee starting in March 2019 from a related party to provide day-to-day executive management and support to the Company.

The Company also decreased professional fees and marketing and trade shows expense by $122,846 and $76,424, respectively, from 2018 to 2019 due to the use of third party professionals previously used in preparing to become a public entity, and an overall Company initiative starting in 2019 to scale back on marketing activities, specifically trade shows and the use of third party advertising firms. On a forward-looking basis, the Company anticipates ongoing reductions in administrative, selling and marketing expenses.

*Impairment Loss*

The impairment loss of $206,100 in the three months ended September 30, 2019 related to the impairment of a single piece of extraction equipment leased to a customer under a financing lease in which the Company determined that net book value of the equipment exceeded the present value of the lease stream revenue to be earned on the lease upon lease inception. The Company notes the aforementioned piece of equipment was overstock inventory from a historical equipment purchase. As the Company no longer purchases equipment without an enforceable lease commitment in place, the Company does not anticipate Impairment Losses to be recurring in nature.

*Other (Income) Expense*

Other income for the three months ended September 30, 2019 was $(300,063) compared with other expense of $415,353 for the three months ended September 30, 2018. The decrease in other expense of $715,416 for the three months ended September 30, 2019 as compared to the same period in 2018 was primarily attributable to a $(1,519,953) change in fair value of derivative liabilities (a non-cash item) in the quarter ended September 30, 2019 partially offset by an increase of $822,260 in other expenses related to financing expense for interest on term loans and convertible debt, non-cash accretion expense associated with debt issuance costs, and debt discounts on our term loans and convertible debt, listing expense for the excess of purchase price paid over nets assets acquired for the Caracara reverse acquisition and losses recorded on sale of servicing equipment and property, plant and equipment.

*Loss*

The Company's loss for the three months ended September 30, 2019 was $(410,342) compared to a loss of $(2,300,228) for the three months ended September 30, 2018. The significant improvement in the Company's net loss position demonstrates significant reduction in costs due to the completion of the RTO, streamlining of the Company's future cost structure and stabilization of operating activities.

**Nine Months Ended September 30, 2019 as Compared to the Nine Months Ended September 30, 2018**

*Revenue*

Revenues for the nine months ended September 30, 2019 were $1,931,228 compared with $63,947 for the nine months ended September 30, 2018. The increase of $1,867,281 for the nine months ended September 30, 2019 as compared to the same period in 2018 was primarily attributable to completion of a direct equipment sale to a customer in the second quarter of 2019, and the recognition of the present value of non-cancelable rentals associated with financing leases entered into in 2019. To a lesser degree the increase was attributable to increased activity in royalty arrangements in 2019.

*Cost of Sales and Gross Profit (Loss)*

Cost of sales for the nine months ended September 30, 2019 were $2,023,110 compared with $455,833 for the nine months ended September 30, 2018. The increase of $1,567,277 for the nine months September 30, 2019 as compared to the same period in 2018 was primarily attributable to the cost of equipment purchases related to the direct sale of equipment to a customer completed in 2019, and equipment costs associated with financing leases entered into in September 2019. To a lesser degree the increase was attributable to compensation and related expenses for personnel providing services to customers, and increased depreciation expense related to servicing equipment put in service in 2019.

Gross (loss) for the nine months ended September 30, 2019 was a loss of $(91,882) compared to a loss of $(391,886) for the nine months ended September 30, 2018. The Company anticipates further gross margin improvement due to the curtailment of excess equipment sales and new leasing activity.

*Operating Expenses*

Operating expenses for the nine months ended September 30, 2019 were $3,096,867 compared with $2,317,565 for the nine months ended September 30, 2018. The following table presents the components of operating expenses:

| | Nine months ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| Administrative expenses: | | |
| Personnel and contractor costs | $ 282,809 | $ 557,144 |
| Professional fees | 1,651,695 | 456,063 |
| Incentive compensation | 463,983 | 667,648 |
| Occupancy expense | 46,057 | 40,747 |
| Management fee | 260,400 | - |
| Other | 223,887 | 257,409 |
| Total administrative expenses | 2,928,831 | 1,979,011 |
| Selling and marketing expenses: | | |
| Personnel and contractor costs | $ 67,287 | $ 130,179 |
| Marketing and trade shows | 50,066 | 172,031 |
| Professional fees | 49,083 | 30,322 |
| Other | 1,600 | 6,022 |
| Total selling and marketing expenses | 168,036 | 338,554 |
| | $ 3,096,867 | $ 2,317,565 |

The increase in administrative and selling and marketing expenses of $779,302 in the nine months ended September 30, 2019, as compared to the same period in 2018 was primarily attributable to the increase of professional fees of approximately $455,000 related to legal, audit, tax, marketing and internal accounting costs, including costs associated with the reverse acquisition, subsequent receipts debenture financing and preparing the Company to be publicly traded. The Company also incurred approximately $705,000 of non-cash professional fees related to issuance of stock and warrants to advisors and brokers.

The above increases were partially offset by decreases in (i) personnel and contractor costs associated with the reduction in the use of third party contactors from 2018 to 2019, and a reduction in executive management salary, which is partially offset by the recognition of a management fee starting in 2019 from a related party to provide day-to-day executive management and support to the Company, (ii) non-cash incentive compensation related to the issuance of restricted stock awards, and the cancellation of restricted units that occurred in 2018 and (iii) an overall Company initiative starting in 2019 to scale back on marketing activities, specifically trade shows and the use of third party advertising firms.

*Impairment Loss*

The impairment loss of $206,100 incurred during the three months ended September 30, 2019 related to the impairment of a single piece of extraction equipment leased to a customer under a financing lease in which the Company determined that the net book value of the equipment exceeded the present value of the lease stream revenue to be earned on the lease upon lease inception. The Company notes the aforementioned piece of equipment was overstock inventory from a historical equipment purchase. As the Company no longer purchases equipment without an enforceable lease commitment in place, the Company does not anticipate Impairment Losses to be recurring in nature.

*Other (Income) Expense*

Other expense for the nine months ended September 30, 2019 was $3,893,674 compared with $1,010,604 for the nine months ended September 30, 2018. The increase in other expense of $2,883,070 for the nine months ended September 30, 2019 as compared to the same period in 2018 was primarily attributable to a $1,297,324 non-cash change in fair value of derivative liabilities, and an increase of $1,603,469 in other expenses related to financing expense for interest on term loans and convertible debt, non-cash accretion expense associated with debt issuance costs, and debt discounts on our term loans and convertible debt, non-cash listing expense for the excess of purchase price paid over nets assets acquired for the Caracara reverse acquisition and losses recorded on the sale of servicing equipment and property, plant and equipment.

*Loss*

The Company’s loss for the nine months ended September 30, 2019 was $(7,289,498) compared to a loss of $(3,720,055) for the nine months ended September 30, 2018. The Company anticipates further gross margin improvement due to the curtailment of excess equipment sales and new leasing activity.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

The Company’s liquidity needs are primarily to finance growth initiatives including equipment acquisition, leasing activities, 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 (see "*Financial Instruments and Financial Risk Management*").

As of September 30, 2019, the Company had $4,943,151 of cash, working capital (current assets minus current liabilities) of $2,205,228 and an accumulated deficit of $(13,504,200) compared with $534,148 of cash, a working capital deficit of ($1,501,249) and an accumulated deficit of $(6,214,702) as of December 31, 2018. The increase in working capital by $3,706,477 was primarily attributable to the proceeds received from the issuance of Sub Receipts debentures and the generation of revenues partially offset by the funding of operations and purchase of servicing equipment. The increase in accumulated deficit $(7,289,498) was primarily attributable to the funding of operations, non-cash charges related to amortization of debt issuance costs and discounts, non-cash compensation and change in the fair value of the derivative liabilities.

The Company anticipates incurring additional losses until such time that 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 nine months ended September 30, 2019 and 2018:

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|
| Cash flows (used in) operating activities | $ (1,630,658) | $ (2,215,293) |
| Cash flows provided by (used in) investing activities | $ 1,022,185 | $ (2,158,843) |
| Cash flows provided by financing activities | $ 5,045,414 | $ 5,415,912 |

*Cash Flow from Operating Activities*

Net cash used in operating activities for the nine months ended September 30, 2019 was $(1,630,658) primarily due to a loss for the period of $(7,289,498), offset in part by non-cash adjustments of $4,634,822 including changes in fair value of derivative liabilities, accretion of debt issuance costs and discounts, impairment loss, listing expense, depreciation, amortization, non-cash compensation and incentive compensation, and a $1,024,018 decrease in working capital components. The above increases were partially offset by a gain on sale of servicing equipment and recognition of non-cash lease income.

Net cash used in operating activities for the nine months ended September 30, 2018 was $(2,215,293) primarily due to a loss for the period of $(3,720,055) and an increase in working capital components of $(221,723) partially offset in part by non-cash adjustments of $1,726,485 primarily attributable to the accretion of debt issuance costs and discounts on note payables and convertible debt, depreciation and incentive compensation expense.

*Cash Flow from Investing Activities*

Net cash provided by investing activities for the nine months ended September 30, 2019 of $1,022,185 was primarily attributable due to the proceeds from the sale of servicing equipment and property, plant and equipment and cash acquired as part of the reverse acquisition with Caracara, offset in part by the purchase of servicing equipment.

Net cash used in investing activities for the nine months ended September 30, 2018 of $(2,158,843) represented the purchase of servicing equipment and property, plant and equipment.

*Cash Flow from Financing Activities*

Net cash provided by financing activities for the nine months ended September 30, 2019 was $5,045,214 and consisted primarily of proceeds from loans and borrowings, specifically Sub Receipt debentures of $4,472,085 and term loans of $1,100,000, offset in part by payment of debt issuance and deferred financing costs and repayments of loans and borrowings.

Net cash provided by financing activities for nine months ended September 30, 2018 was $5,415,912 and consisted primarily of proceeds from loans and borrowings, specifically convertible debt, of $5,550,000, offset in part by payment of debt issuance and deferred financing costs.

## 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 September 30, 2019, 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 and 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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Salaries, contractor costs, management fees and benefits | $ 134,581 | $ 212,328 | $ 378,199 | $ 289,353 |
| Incentive compensation | 60,851 | 41,647 | 376,069 | 41,647 |
| | $ 195,432 | $ 253,975 | $ 754,268 | $ 331,000 |

*Related Party Loans and Borrowings*

As of September 30, 2019 and December 31, 2018, the Company had loans and borrowings, and related interest due to related parties of $1,907,244 and $813,000, respectively. The following table presents the Company's loans and borrowings, and related interest, from related parties:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Archytas: | | |
| Term loans | $ 1,700,000 | $ 600,000 |
| Series B debentures | - | 200,000 |
| Accrued interest | 207,244 | 13,000 |
| | $ 1,907,244 | $ 813,000 |

In November 2019, the Company repaid $1,100,000 of the term loans principal, and all accrued interest due as of September 30, 2019.

*Related Party Transactions and Amounts Due to Related Parties*

The following table presents expenses incurred on behalf of the Company by Archytas and assets purchased from Khrysos:

| | As of and for the Nine Months Ended September 30, 2018 and 2019 |
|---|---|
| Amounts due to related parties at January 1, 2018 | $ 196,962 |
| Interest expense | 105,546 |
| Operating expenses | 19,689 |
| Inventory purchases | 291,667 |
| Prepaid equipment purchases | 2,240,972 |
| Less payments to related parties | (2,467,959) |
| Amounts due to related parties at September 30, 2018 | $ 386,877 |
| | |
| Amounts due to related parties at January 1, 2019 | $ 118,654 |
| Interest expense | 218,957 |
| Management fee | 260,400 |
| Operating expenses | 86,614 |
| Prepaid equipment purchases | 286,083 |
| Conversion of accrued interest to comon stock | (15,713) |
| Less payments to related parties | (3,000) |
| Amounts due to related parties at September 30, 2019 | $ 951,995 |

*Related Party Purchase Commitments*

The Company had 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 since 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 this 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. In November 2019, the Company repaid the outstanding amounts related to the management services agreement due as of September 30, 2019.

*Related Party Sales*

In March and April 2019, the Company entered into rental lease agreements with CBD LLC to lease extraction machines and other ancillary processing equipment to CBD LLC. CBD LLC is considered 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 LLC has paid $100,000 to this related party.

## CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

### New standards adopted

*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

There are no new IFRS standards or interpretations expected to go into effect subsequent to the report date that would have a material impact on the Company's financial statements whether or not the policy is adopted early.

## 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.

*Determination of purchase price allocations*

Estimates are made in determining the fair value of assets and liabilities acquired as part of an acquisition. The estimates are based on management's best assessment of the related inputs used in the valuation models, such as future cash flows and discount rates.

**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.

**Disclosure Controls and Procedures**

The Company's management, with the participation of its President and CEO and CFO, have evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the certifying officers have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures effectively provide reasonable assurance that information required to be disclosed, in reports the Company is required to file or submit under Canadian securities laws, was recorded, processed, summarized and reported within the appropriate time periods specified by those laws. The Company's certifying officers, being the President and CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and procedures. The certifying officers also concluded that material information was accumulated and communicated to management of the Company, including the President and CEO and the CFO, as appropriate to allow timely decisions regarding disclosure.

**Internal Controls over Financial Reporting**

The Company's President and CEO, and the CFO, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the President and CEO and the CFO, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of unaudited condensed interim consolidated financial statements for external purposes, in accordance with IFRS. The Company's internal control over financial reporting includes policies that:

- pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of unaudited condensed interim consolidated financial statements in accordance with IFRS and that

the Company’s receipts and disbursements are made only in accordance with authorizations of management and the Company’s Directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the Company’s unaudited condensed interim consolidated financial statements.

The Company’s management believes that its policies and procedures provide the best controls achievable under the constraints described above, subject to the limitations below.

**Limitation of Controls and Procedures**

The Company’s management including the President and CEO and the CFO believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. The inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can be circumvented by the individual acts of some persons, by collusion of two or more individuals or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and therefore there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Accounting Responsibilities, Procedures and Policies**

The Board of Directors, which among other things is responsible for the unaudited condensed interim consolidated financial statements of the Company, delegates to management the responsibility for the preparation of the unaudited condensed interim consolidated financial statements. Responsibility for their review rests with the Audit Committee. Each year the shareholders appoint independent auditors to audit and report directly to them on the unaudited condensed interim consolidated financial statements.

The Audit Committee is appointed by the Board of Directors and all of its members are non-management directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues, and to confirm that all administrative duties and responsibilities are properly discharged. The Audit Committee also reviews the unaudited condensed interim consolidated financial statements and MD&A and considers the engagement or reappointment of external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when approving the unaudited condensed interim consolidated financial statements for issuance to the shareholders. The external auditors have full and free access to the Audit Committee.

**Cautionary Note Regarding Forward-Looking Information**

This MD&A contains certain “forward-looking information” as defined in applicable securities laws. These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking in nature. The forward-looking information in this MD&A speak only as of the date of this MD&A or as of the date specified in such statements.

**Subsequent Events**

*Related Party Transactions*

In November 2019, the Company repaid Archytas $1,100,000 of outstanding terms loans, and $207,244 and $260,400 of accrued term loans and accrued management fees, respectively, that were outstanding as of September 30, 2019.

*Sub Receipt Debenture Conversion*

In November 2019, the Company issued 50,000 common shares and warrants related to the conversion of a Sub Receipt debenture. The warrant issuance had a term of five years and exercise price of $1.50CAD ($1.14) per share that vested immediately upon their issuance.

*Lease Portfolio Updates*

In November 2019, the Company reached a mutual agreement with an existing customer to terminate a lease arrangement due to the customer experiencing financial hardship. The Company excluded revenues from this customer in the third quarter. Working with the customer, Xtraction Services made arrangements to collect all service equipment previously held at the customer location and has sold, redeployed or recovered all equipment related to this engagement. The Company notes that approximately 95% of the associated equipment was sold or redeployed as at November 27, 2019.

On November 26, 2019, the Company announced announce that it has entered into a sale-leaseback agreement "**Leaseback agreement**", with Halo Labs Inc., a leading cannabis extraction company that develops and manufactures quality cannabis oils and concentrates operating in California, Oregon and Nevada. The Leaseback Agreement was provided against a variety of existing equipment including but not limited to; extraction, pre and post processing, freezers and security equipment, for USD$600,000. The Leaseback agreement is payable over a 3-year term with invoicing commencing immediately.

*Option Issuance & Debt Settlement*

Xtraction Services has entered into debt settlement agreements with certain consultants where pursuant to these agreements, the Company has agreed to issue an aggregate of 727,273 Common Shares in the capital of the Company at a deemed price ranging from of 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.