

Xtraction Services Reports Financial Results for the Year Ended 2019

LOS ANGELES--(BUSINESS WIRE)--April 29, 2020--**Xtraction Services Holding Corp.**, ("**Xtraction Services**", "**XS**" or the "**Company**") (CSE: **XS**) (OTCQB: **XSHLF**) a specialty finance company engaged in equipment leasing in the United States, announced today results for the year ending December 31, 2019 ("**YE/19**"). The Company's audited year-end condensed Financial Statements ("**FS**") and Management Discussion & Analysis ("**MDA**") are available under the Company's profile on www.sedar.com, and on the corporate website at www.xtractnow.com. All figures are expressed in United States dollars (\$) unless otherwise stated.

David Kivitz, Chief Executive Officer of XS commented, "2019 was a work in progress as we streamlined costs and focused on cleaning up the balance sheet. We successfully transacted on a trade of non-essential equipment to acquire 13.4% of our outstanding shares, which also reduced operating expenses. Our team built out our equipment vendor partnerships and strengthened our customer pipeline. The completion of the reverse take-over of Caracara in September provided additional capital, which was deployed into several new leasing opportunities. Our efforts did not go unnoticed as we were able to forge a strategic partnership with KushCo, allowing both companies to continue their respective growth initiatives, while utilizing each of our strengths to support one another. As well, with KushCo taking a 19.9% ownership stake in the Company, our strategic partners along with insiders now control over 40% of the Company.

"There are very few specialty finance companies that provide equipment financing to cannabis and hemp companies, and fewer that do it well. This is not an easy industry to underwrite, given the varying regulations and technical knowledge that is required. With the accomplishments achieved over the past year, we are now in a strong position, poised for growth. XS has increased its share of larger, better established companies in its pipeline and we are excited with the prospects for the Company in 2020 and beyond."

YE/19 Financial Highlights:

- **Increased Revenues** to \$2.3 million at YE/19, compared to \$0.15 million for the same period of the previous year ("**YE/18**").
- **Gross Loss Improved** to \$0.33 million compared to a gross loss of \$1.0 million at YE/18.
- **Operating Expenses** of \$4.2 million compared to \$3.6 million at YE/18.
- **Realized Loss** of \$6.9 million compared to a loss of \$5.9 million at YE/18.
- **Cash on hand at YE/19** of \$2.5 million (working capital of \$1.8 million).

2019 Corporate Highlights:

- **Commenced Trading on the Canadian Securities Exchange ("CSE"):** Successfully completed the reverse takeover transaction with Caracara Silver Inc., in September 2019, to list on the CSE under the symbol "**XS**".

- **New Vendors added to the Preferred Vendor Program:** Continued to add new partners to the rapidly growing list of Original Equipment Manufacturers (“OEM”) who offer the highest quality equipment and service across the equipment value chain.
- **Khrysos Industries, Inc. (“Khrysos”) Equipment Trade:** XS returned non-essential, spare equipment inventory to Khrysos, in exchange for their 13.4% equity ownership position in XS.
- **Halo Labs Inc. (“Halo”) Sale-Leaseback Agreement:** The Company signed a sale-leaseback agreement with Halo, a publicly traded leading cannabis extraction company that develops and manufactures quality cannabis oils and concentrates operating in California, Oregon, and Nevada.

Post-Year End Highlights:

- **OTCQB Listing & DTC Eligibility:** Commenced trading on the OTCQB Venture Market under the symbol “XSHLF” in January 2020. Received approval for the book-entry delivery and depository services of Depository Trust Company in March 2019, which offers a more convenient trading experience for current and future investors in the United States.
- **New Leasing Agreement with Lehua Group USA, LLC (“Lehua”):** Entered into a leasing agreement with this multi-state, licensed cannabis processor specializing in THC-infused beverages.
- **Acquired California Lenders License:** The acquisition of the lender license allows XS to significantly expand its lending and financing capabilities in the State of California.
- **Partnership with KushCo Holdings Inc. (“KushCo”):** Entered into a strategic partnership with this premier producer of ancillary products and services to the legal cannabis and CBD industries, with KushCo taking a 19.9% ownership position in XS.

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.

Current Pipeline:

- Currently have multiple signed term sheets and maintain a robust pipeline with approximately 40 leasing opportunities under review
- Increase in leasing opportunities to higher quality, larger companies, who now have fewer options for raising capital

In light of the current environment, 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, leading to excessive dilution. XS has become a recognized brand in the industry as evidenced by an increase in the quality and number of leads available. The

Company remains committed to establishing strong customer relationships, which will provide better returns for shareholders and stakeholders alike.

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 \$2.1 million for YE/19 with annual revenues of \$2.3 million compared to \$0.15 million for YE/18. A portion of the revenue increase was due to the recognition of the present value of non-cancelable rentals associated with financing leases entered into in 2019, as well as the completion of a direct equipment sale.

New leases entered into in 2019 resulted in an increase in the cost of sales by \$1.5 million over the previous year. Cost of sales for YE/19 of \$2.6 million compared to \$1.1 million for YE/18 were primarily attributable to equipment costs associated with financing leases entered into in 2019, the cost of equipment purchases for a direct equipment sale, and to a lesser degree, compensation and related expenses for personnel providing services to customers, as well as increased non-cash depreciation expense related to the servicing of equipment in 2019.

The Company realized a gross loss of \$0.33 million for YE/19, compared to a loss of \$1.0 million for YE/18. The Company anticipates further gross margin improvements due to the curtailment of excess equipment sales and new leasing activity.

Operating expenses of \$4.1 million at YE/19 increased by \$0.57 million when compared to operating expenses of \$3.6 million at YE/18, mainly due to an increase in administrative expenses of \$1.1 million in YE/19 over YE/18. The increase was primarily attributable to professional fees related to legal, audit, tax and internal accounting costs, including costs associated with the reverse acquisition, subsequent receipts debenture financing and preparing the Company to be publicly traded. The increases were partially offset by decreases in personnel and contractor costs associated with the reduction in the use of third party contractors from 2018 to 2019, and non-cash incentive compensation related to the reversal of expense associated with the cancellation of stock options in 2019. Sales and marketing expenses decreased by \$0.54 million over YE/18, driven by corporate initiatives starting in 2019 to scale back on marketing activities, specifically trade shows and the use of third-party advertising firms. With the Caracara merger and go-public transaction completed in the third quarter of 2019, the Company anticipates significant additional reductions in administrative expenses, most notably in professional fees.

The Company realized a loss of \$6.9 million at YE/19 compared to a loss of \$5.8 million for YE/18. The Company notes that the YE/19 loss includes \$3.8 million of non-cash adjustments. In 2020, the Company anticipates significantly improved operating results due to increased leasing activity, the curtailment of excess equipment sales, significant cost reduction initiatives, and the absence of one-time costs related to the reverse acquisition.

Liquidity and Capital Resources

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

At YE/19, the Company had working capital of \$1.8 million (compared to a working capital deficit of \$1.5 million at YE/18), including cash of \$2.5 million (compared to \$0.53 million at YE/18). The increase in working capital by \$3.3 million, was primarily attributable to the proceeds received from the issuance of Sub Receipt debentures and the generation of revenues net of operating expenses and servicing equipment purchases.

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

Recent Developments

The Company established the Preferred Vendor program to partner directly with the OEMs serving the industry. The program mitigates technology risk with equipment and hardware being leased and provides deal flow at the point of purchasing. XS works directly with its Preferred Vendors to create lease opportunities for their end-user customers. The technical underwriting team continuously look for OEMs that provide the highest quality equipment and service in the industry while staying on top of trends and customer demands. XS currently receives discounts from most of its 90 + Preferred Vendors that range from 5% -35%.

In December 2019, the Company entered into a share buyback agreement with Khrysos and a former employee of the Company, whereby the Company repurchased 6.51 million shares on a fully-diluted basis (approximate market value of \$1.4 million at transaction date), in exchange for servicing equipment and spare parts inventory valued at approximately \$1.3 million. Given the non-essential nature of the equipment which was traded for significant ownership in Xtraction Services, the transaction was highly accretive. This transaction allowed the Company to reduce associated costs with holding such inventory while also reducing the number of its outstanding Common Shares by approximately 13.4%.

In January 2020, the Company entered into a new leasing agreement with Lehua Group LLC, USA, a multi-state, licensed cannabis processor specializing in THC-infused beverages. Lehua was approved for an equipment lease of up to \$575,000 for strategic equipment purchases to expedite Lehua growth plans. The lease will be deployed in tranches on a pro-rata basis and based on 36-month terms. Tranche 1 was drawn immediately to acquire \$140,000 of equipment for pre/post-processing of extracts from Across International (USA), one of Xtraction Services' Preferred Vendors (see press release dated January 20, 2020).

Towards the end of January, the Company announced it had reached an agreement to acquire all of the outstanding shares of CA Licensed Lenders LLC (including its California Finance Lenders License) in exchange for 450,761 common shares of the Company. The common shares were valued at \$0.39CAD (\$0.30) on the date of the acquisition resulting in total share consideration

of \$133,244. The Company expects the license to play a crucial role given the steady increase of inbound requests from customers with business operations in California, one of the largest and fastest-growing cannabis and hemp markets globally (see press release dated January 27, 2020).

At the end of January 2020, the Company entered into a strategic partnership with KushCo, to facilitate the establishment of a long term and stable cooperation to share the development of opportunities and to benefit from each other's strengths. The partnership provides direct access to thousands of potential customers for XS, immediately increasing the customer pipeline while providing a distinguished stamp of approval for the Company's leasing services. As part of the partnership agreement, KushCo now holds a 19.9% ownership position in XS, and granted to XS approximately 1.6 million shares of KushCo (OTCQX: KHSB, see press release dated January 31, 2020).

Business Model and Revenue Streams

Xtraction Services currently provides equipment leasing solutions and purchase options for a variety of equipment through its cultivated relationships with OEMs serving the industry, who are part of the Company's Preferred Vendor Program.

Equipment Sales & Procurement: Xtraction Services' team is experienced in identifying and sourcing the right equipment to meet the distinctive needs of each customer. Through the Preferred Vendor Program, the Company has access to an expansive variety of equipment, enabling 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 significant upfront capital across manageable monthly payments with flexible terms and, affordable down payments. Term lengths range from 12-48 months and are considered on an individual basis.

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

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

About 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. 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 moving forward; 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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