MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR YEARS ENDED DECEMBER 31, 2019 AND 2018

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of the operations of Xtraction Services 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 year ended December 31, 2019. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019 together with the notes thereto. The annual financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All amounts in the annual 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 April 28, 2020 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 December 31, 2019, the Company had working capital of $1,802,038 and, an accumulated deficit of $(13,586,621). 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. 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

Company Background

Xtraction Services formerly known as Caracara Silver Inc. ("Caracara") was incorporated under the laws of the Province of British Columbia on December 3, 2009, and is listed on the Canadian Securities Exchange ("CSE") under the symbol "XS".

Xtraction Services, Inc. ("XSI") was originally established as a Delaware limited liability company on October 9, 2017. In July 2018, XSI 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, XSI received a Certificate of Conversion and Certificate of Incorporation from the Secretary of State of Delaware.

On March 22, 2019, XSI entered into a definitive merger agreement with Caracara pursuant to which Caracara would acquire all of the issued and outstanding common shares of XSI. The transaction was structured as a "reverse triangular merger" between XSI, Caracara and a wholly-owned subsidiary of Caracara 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 shares, stock options and warrants of XSI and the resulting issuer changed its name from Caracara Silver Inc. to Xtraction Services Holdings Corp. and continued with the business of XSI.

Description of Business

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, sale-leasebacks, and purchasing solutions;
- contracts are primarily generated through its relationships with industry vendors that provide XS services at the point of sale, and direct relationships; and
- provides analytical and support services, equipment procurement, and testing protocols beyond the equipment manufacturers whose products it is leasing

Xtraction Services provides customers with the option of leasing equipment in consideration for monthly lease payments (pursuant to lease agreements).

Recent Developments and Outlook

Revenue Activity

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 and 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.

Since Xtraction Services' creation less than 3 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 to 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.

Working closely with Puritix through commissioning of its operations, Xtraction elected to restructure its existing lease agreements in January 2020 from a production-based royalty into a fixed monthly fee lease with substantially extended lease term effective January 1, 2020. Under the revised lease agreement, Puritix is obligated to pay $30,000 monthly until September 2022, and shall renew automatically for successive thirty (30) month periods, in each case, unless terminated not more than one-hundred twenty (120) or less than sixty (60) days prior to the end of the applicable expiring term renewals.

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 July 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.

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 and fourth quarter. Working with the customer, the Company made arrangements to collect all service equipment previously held at the customer location and sold, redeployed or recovered all equipment related to this engagement. The Company notes that all equipment had been sold or redeployed by year-end. 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 realized in the fourth quarter. The equipment subject to sale was considered ancillary in nature while more modern, impactful equipment was redeployed to other customers.

In November 2019, the Company entered into a sale-leaseback agreement, with Halo Labs Inc., ("Halo") 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, valued at $600,000. Per the terms of the agreement, the lease has a term of 36 months with expected total monthly rentals and fees of approximately $850,000. Additionally, Halo has the option to repurchase the leased equipment at the end of month 18 for $275,000 and an end of lease term purchase option for $50,000.

In 2019, the Company completed the delivery and installation of the servicing equipment sale with Vash Holdings in the amount of approximately $1,070,000 that was paid in full upfront.

Khrysos Joint Venture Termination

Beginning in 2017, the Company worked with Khrysos to distribute Khrysos produced Co2 and ancillary extraction equipment. As part of the arrangement the Company entered into a joint venture and commercial arrangements agreement whereby Khrysos was granted a 40% ownership interest in the Company and received minimum purchase commitments from the Company in exchange for the Company receiving purchase and intellectual property rights and an exclusive right to offer for sale, purchase, lease and or use any equipment designed for the cannabis industry produced by Khrysos. The Company recognized an intangible asset for approximately $766,000 for such rights and exclusivity. The mutual exclusivity arrangement called for a temporary price increase of 5% until such time the Company had $16,000,000 (equivalent of $800,000) of cumulative equipment purchases from Khrysos. The Company never met the purchase commitments and throughout 2019 expanded its range of product offerings to include other vendors in order to provide tailored, end-to-end solutions for customers. In November 2019, the Company and Khrysos entered into an agreement that released the Company for any obligations associated with the purchase commitment in exchange for the Company returning previously purchased servicing equipment. As a result of this agreement the Company determined that the intangible asset associated with the mutual exclusivity arrangement no longer maintained value and recorded an impairment loss of approximately $472,000 for the intangible assets remaining net book value.

In December 2019, the Company entered into a share buyback agreement with Khrysos and a former employee of the Company who is now an employee of Khrysos whereby the Company purchased Khrysos's proportionate voting shares of 5,889 and the former employee's common shares of 622,631. The fair value of the shares at the time of the exchange was estimated to be approximately $1,400,000. A difference of approximately $425,000 between the fair value of the shares returned and their carrying value was charged directly to deficit. As part of the exchange, 600,000 stock options held by Khrysos with a fair value of approximately $93,000 were also cancelled. A gain of approximately $192,000 was recognized on this exchange transaction, representing the difference between the fair value of the shares returned and stock options cancelled, and the equipment given up.

Caracara Merger

On March 22, 2019, XSI entered into a definitive merger agreement with Caracara pursuant to which Caracara would acquire all of the issued and outstanding common shares of XSI. The transaction was structured as a "reverse triangular merger" between XSI, Caracara and a wholly-owned subsidiary of Caracara 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 shares, stock options and warrants of XSI and the resulting issuer changed its name from Caracara Silver Inc. to Xtraction Services Holdings Corp. and continued with the business of XSI.

The merger transaction constituted a reverse acquisition for accounting purposes whereby XSI acquired Caracara and its wholly-owned subsidiary. For accounting purposes, XSI was treated as the accounting acquirer (legal subsidiary), and Caracara was treated as the accounting acquiree (legal parent). As XSI was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in the audited consolidated 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.

Servicing Equipment and Prepaid Servicing Equipment Divestitures

Throughout 2019 the Company sold and exchanged excess servicing equipment and prepaid servicing equipment to both third party buyers and Khrysos. The total of these transactions resulted in the Company reducing the net book value of servicing equipment and prepaid servicing equipment by approximately $2,035,000, receiving gross proceeds of approximately $821,000, reducing accounts payable obligations by approximately $371,000 and recognizing losses of approximately $843,000.

As noted above in December 2019, the Company entered into a share buyback agreement with Khyrsos and a former employee of the Company who is now an employee of Khyrsos whereby the Company exchanged servicing equipment and spare parts inventory for Khrysos's proportionate voting shares and the former employee's common shares. The transaction resulted in a decrease of approximately $1,241,000 in servicing equipment and prepaid servicing equipment.

Components of Our Results of Operations

Revenue

The Company derives the majority of its revenue from sale, leasing and sale-leaseback of extraction, processing, manufacturing, testing, etc. equipment ("servicing equipment") used in the supply chain for cannabis and hemp operators. The Company's products and services include: (i) the sale or lease of equipment and processes.

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 (i) financing interest expense on notes payable and convertible debentures, (ii) non-cash interest expense for debt issuance costs and debt discounts related to the issuance of our convertible debentures, (iii) listing expense, (iv) losses on the sale of servicing equipment and property, plant and equipment, (v) mark-to-market changes in the fair value of warrant liabilities and embedded derivatives within the convertible debentures ("derivative liabilities") and (vi) impairment loss of the Company's mutual exclusivity and intellectual property intangible asset as a result of Company's termination of the joint venture and corresponding purchase commitments agreement with Khrysos.

Income Taxes (Recovery)

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. The Company has recognized federal and state income tax liabilities and benefits related to the operations from the date of conversion (July 19, 2018) through December 31, 2019. Prior to the date of conversion (July 19, 2018), the Company was a limited liability company treated as a partnership for federal and state income tax purposes with all income tax liabilities and/or benefits of the Company being passed through to the members. As such, no recognition of federal or state income taxes for the Company have been provided for in the pre-conversion period.

RESULTS OF OPERATIONS

Year Ended December 31, 2019 as compared to the Year Ended December 31, 2018

The following table sets forth selected financial information for the periods indicated that was derived from our audited financial statements and the respective accompanying notes prepared in accordance with IFRS.

	Years ended December 31,	
	2019	2018
Revenue	$ 2,289,817	$ 146,776
Cost of sales	$ 2,616,203	$ 1,135,833
Gross loss	$ (326,386)	$ (989,057)
Operating expenses	$ 4,149,579	$ 3,575,562
Other expense	$ 2,853,906	$ 1,274,051
Income tax (recovery) expense	$ (383,025)	$ 975
Net loss	$ (6,946,846)	$ (5,839,645)
Loss per share - basic and diluted	$ (0.18)	$ (0.21)
Weighted average shares outstanding - basic and diluted (post-split)	37,562,660	28,385,149

	December 31,	
	2019	2018
Total assets	$ 4,474,606	$ 6,691,867
Total liabilities	$ 3,549,613	$ 7,586,086

Revenue

Revenues for the year ended December 31, 2019 were $2,289,817 compared with $146,776 for the year ended December 31, 2018. The increase of $2,143,041 for the year ended December 31, 2019 as compared to the same period in 2018 was primarily attributable to the recognition of the present value of non-cancellable rentals associated with financing leases entered into in 2019, and to the completion of a direct equipment sale to a customer in 2019. To a lesser degree the increase was attributable to lease revenue recognized from operating lease arrangements.

Cost of Sales and Gross Loss

Cost of sales for the year ended December 31, 2019 were $2,616,203 compared with $1,135,833 for the year ended December 31, 2018. The increase of $1,480,370 for the year ended December 31, 2019 as compared to the same period in 2018 was primarily attributable to equipment costs associated with financing leases entered into in 2019, and the cost of equipment purchases for a direct equipment sale to a customer completed in 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 year ended December 31, 2019 was a loss of $(326,386) compared to a loss of $(989,057) for the year ended December 31, 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 year ended December 31, 2019 were $4,149,579 compared with $3,575,562 for the year ended December 31, 2018. The following table presents the components of operating expenses:

	Year ended December 31,	
	2019	**2018**
Administrative expenses:		
Personnel and contractor costs	$ 360,047	$ 777,709
Professional fees	2,213,209	757,356
Incentive compensation	641,191	874,772
Occupancy expenses	52,932	60,991
Management fee	346,401	-
Other	319,733	342,636
Total administrative expenses	3,933,513	2,813,464
Selling and marketing expenses:		
Personnel and contractor costs	$ 95,392	$ 349,351
Marketing and trade shows	69,205	258,179
Professional fees	49,083	119,272
Other	2,386	35,296
Total selling and marketing expenses	216,066	762,098
	$ 4,149,579	$ 3,575,562

Administrative expenses for the year ended December 31, 2019 were $3,933,513 compared with $2,813,464 for the year ended December 31, 2018. The increase of $1,120,049 in the year ended December 31, 2019, as compared to the same period in 2018 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. Included in 2019 professional fee expense is approximately $1,173,578 of non-cash fees related to issuance of stock and warrants to advisors, brokers and consultants. With the Caracara merger and going public completed in the third quarter, the Company anticipates a significant reduction in administrative fees, most notably related to professional fees. Additionally, starting in 2019 in lieu of executive management salaries the Company began to recognize a management fee expense associated with a related party providing day-to-day executive management and support to the Company.

The above increases were partially offset by decreases 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, and non-cash incentive compensation related to the reversal of expense associated with the cancellation of stock options in 2019.

Selling and marketing expenses for the year ended December 31, 2019 were $216,066 compared with $762,098 for the year ended December 31, 2018. The decrease of $546,032 in the year ended December 31, 2019, as compared to the same period in 2018 was primarily attributable an overall Company

initiative starting in 2019 to scale back on marketing activities, specifically contractors, trade shows and the use of third party advertising and consulting firms.

Other Expense

Other expenses for the year ended December 31, 2019 were $2,853,096 compared with $1,274,051 for the year ended December 31, 2018. The increase in other expense of $1,579,045 for the year ended December 31, 2019 as compared to the same period in 2018 was primarily attributable to (i) $302,379 in other expenses related to financing expense for interest on term loans and convertible debt, (ii) $658,845 of losses recorded on the on the sale of servicing equipment and property, plant and equipment, (iii) $363,095 of non-cash listing expense for the excess of purchase price paid over nets assets acquired for the Caracara reverse acquisition and a (iv) $472,262 impairment of the Company's mutual exclusivity and intellectual property intangible asset as a result of Company's termination of the joint venture and corresponding purchase commitments agreement with Khrysos in November 2019. The above increases were partially offset by $639,186 non-cash change in the fair value of derivative liabilities in 2019.

The Company expects the equipment sale losses to be non-recurring as Xtraction no longer purchases equipment without an enforceable lease or binding purchase commitment in place. The Company notes the costs related to the Caracar merger are not recurring as the reverse acquisition was completed in the third quarter.

Income Tax (Recovery) Expense

Income taxes for the year ended December 31, 2019 were $(383,025) compared with income tax of $975 for the prior period. The income tax recovery is attributable to a benefit realized on the losses of the Company.

Loss

The Company's loss for the year ended December 31, 2019 was $(6,946,046) compared to a loss of $(5,839,645) for the year ended December 31, 2018. The Company notes the 2019 loss includes $3,884,243 of non-cash adjustments. In 2020, Xtraction anticipates improvement in losses due to the curtailment of excess equipment sales, significant cost reduction initiatives, the absence of costs related to the reverse acquisition 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 December 31, 2019, the Company had $2,487,293 of cash, working capital (current assets minus current liabilities) of $1,802,038 and an accumulated deficit of $(13,586,621) 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 $3,303,287 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 $(7,371,919) was primarily attributable to the funding of operations, non-cash charges related to amortization of debt issuance costs and discounts, non-cash compensation, impairment of the of the Company's mutual exclusivity and intellectual property intangible asset and non-recurring costs related to the Caracara merger and going public.

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 years ended December 31, 2019 and 2018:

	Year Ended December 31,	
	2019	2018
Cash flows (used in) operating activities	$ (3,458,029)	$ (3,549,010)
Cash flows provided by (used in) investing activities	$ 1,565,433	$ (2,869,961)
Cash flows provided by financing activities	$ 3,870,426	$ 6,105,072

Cash Flow from Operating Activities

Net cash used in operating activities for the year ended December 31, 2019 was $(3,458,029) primarily due to a loss for the period of $(6,946,846), offset in part by non-cash adjustments of $3,884,243 including issuance of warrants and debentures for services, accretion of debt issuance costs and discounts, impairment losses, listing expense, depreciation, amortization, non-cash compensation and incentive compensation, partially offset by a gain on sale of servicing equipment, recognition of non-cash lease income, addition of servicing equipment for finance leases and changes in fair value of derivative liabilities.

Net cash used in operating activities for the year ended December 31, 2018 was $(3,549,010) primarily due to a loss for the period of $(5,839,645) offset in part by non-cash adjustments of $2,212,204 primarily attributable to the accretion of debt issuance costs and discounts on note payables and convertible debt, depreciation, amortization, non-cash compensation and incentive compensation expense.

Cash Flow from Investing Activities

Net cash provided by investing activities for the year ended December 31, 2019 of $1,565,433 was attributable to $698,858 of cash acquired as part of the reverse acquisition with Caracara and proceeds of $867,755 received from the sale of servicing equipment and property, plant and equipment, offset in part by $(1,180) for the purchase of property, plant and equipment.

Net cash used in investing activities for the year ended December 31, 2018 of $(2,869,961) was attributable to the purchase of servicing equipment for operating leases and property, plant and equipment totaling $(3,940,127), offset in part from proceeds from the sale of servicing equipment of $1,070,166.

Cash Flow from Financing Activities

Net cash provided by financing activities for the year ended December 31, 2019 was $3,870,426 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 the repayment of the $1,100,000 of term loans and payment of debt issuance and deferred financing costs.

Net cash provided by financing activities for year ended December 31, 2018 was $6,105,072 and consisted primarily of proceeds from loans and borrowings, specifically convertible debt, of $6,271,000, offset in part by payment of deferred financing costs.

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 December 31, 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:

	Year ended December 31,	
	2019	2018
Salaries, contractor costs, management fees and benefits	$ 473,475	$ 433,444
Incentive compensation	371,374	75,307
	$ 844,849	$ 508,751

Related Party Loans and Borrowings

As of December 31, 2019, and 2018, the Company had loans and borrowings, and related interest due to related parties of $600,000 and $813,000, respectively. The following table presents the Company's loans and borrowings, and related interest, from related parties:

	December 31,	
	2019	2018
Archytas:		
Term loans	$ 600,000	$ 600,000
Series B debentures	-	200,000
Accrued interest	-	13,000
	$ 600,000	$ 813,000

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 for the period from January 1, 2018 through December 31, 2019:

Amounts due to related parties at January 1, 2018	$	196,962
Interest expense		137,231
Operating expenses		58,490
Inventory purchases		291,667
Prepaid equipment purchases		3,259,964
Less payments to related parties		(3,825,660)
Amounts due to related parties at December 31, 2018	$	118,654
Interest expense		262,457
Management fee		346,401
Operating expenses		90,225
Prepaid equipment purchases		283,228
Conversion of accrued interest to common stock		(15,713)
Less payments to related parties		(1,085,252)
Amounts due to related parties at December 31, 2019	$	-

Related Party Purchase Commitments

The Company had the option to purchase extraction equipment from Khrysos, and in the past, did so under mutual exclusivity that required minimum purchases to remain in effect. However, throughout 2019, the Company 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 maintained the mutual exclusivity. The mutual exclusivity arrangement called for a temporary price increase of 5% until such time the Company had $16,000,000 (equivalent of $800,000) of cumulative equipment purchases from Khrysos. In November 2019, the Company and Khrysos entered into an agreement that released the Company for any obligations associated with the purchase commitment in exchange for the Company returning previously purchased servicing equipment.

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. Archytas is a shareholder of the Company, having been involved in the initial formation of XSI. In addition, two officers and directors of the Company are partners of Archytas. The agreement cannot be terminated until Archytas holds less than 5% of the fully diluted capital stock of the Company. As at December 31, 2019, Archytas held 86.04% of the proportionate voting shares of the Company.

In conjunction with entering into this agreement the Company's CEO and CMO terminated their employment agreements with the Company. Additionally, Archytas will receive a fee for services provided on a successful acquisition, merger or change of control of the Company valued at 2% of the enterprise value of such transaction.

The Company is party to certain management contracts. These contracts require payments of $746,000 upon the occurrence of a change in control of the Company, as defined by each officer's respective consulting agreement. As a triggering event has not taken place, the contingent payments have not been reflected in the audited consolidated financial statements.

Related Party Sales

In March and April 2019, the Company entered into rental lease agreements to lease extraction machines and other ancillary processing equipment to Carolina Botanical Development, LLC ("CBD LLC"). CBD LLC is a related party to the Company as a result of a shareholder of the Company also being an owner of CBD LLC. As part of the March 2019 lease agreement, CBD LLC paid $100,000 owed to a related party of the Company, on behalf of the Company.

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New standards adopted

IFRS 16, Leases

IFRS 16, which replaced IAS 17 Leases ("IAS 17") was adopted by the Company beginning January 1, 2019 and requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception of certain short-term leases. The Company has adopted 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 accumulated deficit balance.

The Company elected to use the following exemptions on application of the new rules: lease contracts for which the lease ends within 12 months from the date of initial application; lease contracts for which the underlying asset is of low value; and short-term leases that have a lease term of 12 months or less. Leases considered to be of low value have been excluded. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

The accounting by a lessor for leases under IFRS 16 is substantially unchanged from IAS 17.

The Company concluded that there was no material impact on its audited consolidated financial statements and related disclosures upon the adoption of this standard.

IFRIC 23, Uncertainty over Income Tax Treatments.

IFRIC 23 was adopted by the Company beginning January 1, 2019 and clarified the accounting of uncertainties in income taxes. The Company has concluded there was no material impact on its audited consolidated financial statements as at January 1, 2019 upon the adoption of this standard.

New standards and interpretations to be adopted in future periods

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

IFRS 3 – Business Combinations

IFRS 3 – Business Combinations ("IFRS 3") was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

CRITICAL ACCOUNTING ESTIMATES

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 audited consolidated financial statements are described below.

Depreciation and Amortization of Servicing Equipment, Property, Plant and Equipment, and Intangible Assets and Estimate of Useful Lives

Depreciation and amortization of servicing equipment, property, plant and equipment and intangible asset is dependent upon estimates of useful lives. The Company estimates the useful lives of these assets based on the period over which the assets are expected to be available for use. The estimated useful lives 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, property, plant and 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.

Share-based Incentive Compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of share-based 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 interest 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 consolidated statements of loss and comprehensive loss. The fair value of the derivative liabilities are subject to measurement uncertainty due to the assumptions made for the inputs in the Black-Scholes option valuation.

Compound Financial Instruments

The initial recognition of the compound financial instruments requires that the liability component and the conversion feature are recognized separately. Judgement is required to determine whether the conversion feature meets the definition of equity or a derivative liability. The fair values at initial recognition is subject to measurement uncertainty.

Functional Currency Determination

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates.

Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21. The Effects of Changes in Foreign Exchange Rates and may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

Determination of Discount Rates

Determination of the discount rate for term loans and convertible debentures is based on comparison to similar interest bearing debt instruments of a group of comparative companies.

Determination of Financing Lease or Operating Lease

In making the determination of whether an arrangement should be accounted for as a financing lease or an operating lease, the Company makes certain assumptions including the fair value of the equipment under lease, the interest implicit in the lease and the residual value of the equipment at the end of the lease.

Expected Credit Losses

Allowance for credit losses
The Company measures loss allowances based on an expected credit loss ("ECL") impairment model for all financial instruments except those measured at fair value through profit and loss. Application of the model depends on the following credit stages of the financial assets:

(i) Stage 1 - for new leases recognized and for existing leases that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months;
(ii) Stage 2 - for those leases that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected over the remaining life of the lease; and
(iii) Stage 3 - for leases that are considered to be credit-impaired, a loss allowance equal to full life time ECLs is recognized.

Thus, the evaluation of the allowance for credit losses is performed on a lease by lease basis. Definitions of default have been selected to eliminate the judgement that may otherwise be necessary, given the diversity within the finance receivable portfolio, the lack of individual drivers of changes in credit risk across assets and over time, and the resulting inability to assess which specific assets will be rectified. For the purposes of measuring ECL, a default is defined as leases and loans that have missed one payment and are not subsequently rectified within 30 days.

The Company is entitled to repossess financed equipment if the borrower defaults on their lease obligations. Any amounts recovered from the sale of repossessed equipment are credited to the allowance for credit losses when received.

The process of estimating ECLs uses the following inputs and assumptions to reflect information about past events, current conditions and forecasts of future conditions that are not already captured in the inputs:

- Security deposits held;
- Recoveries of amounts previously written off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects of natural disasters and economic shocks that have occurred on credit losses in the next 12 months;
- The stage of the business cycle for the industry, which considers: the competitive environment, GDP growth, prevailing interest rates and expectations of future rates, fiscal policy and inflation rates; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

Determining the inputs listed and ECLs requires significant estimation uncertainty. The estimation and application of forward-looking information requires significant judgement.

Definition of a Business

Determination of whether a set of assets acquired, and liabilities assumed constitute a business under IFRS 3 requires the Company to make certain judgments, taking into account all facts and circumstances.

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, trade and other receivables and financing receivables. The Company does not have significant credit risk with respect to customers. All cash is placed with recognized 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. The Company has not recognized any loss allowance for expected credit losses on the trade and other receivables and financing receivables as of December 31, 2019.

The Company’s financing receivables are originated with various customers, some are smaller, often owner-operated businesses, some of whom have limited access to traditional financing. A portion of the Company's lessees are either start-up businesses that have not established business credit or more tenured businesses that have experienced some business credit difficulty at some time in their history ("non-prime"). As a result, such leases entail higher credit risk, (reflected in higher than expected levels of delinquencies and loss) relative to the prime commercial equipment finance market.

The Company is entitled to repossess financed equipment if the lessee defaults on their contract in order to minimize any credit losses.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company’s approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

At December 31, 2019, the Company had current assets of $3,373,107 and current liabilities of $1,571,069. All current liabilities are due within one year.

At December 31, 2019, the Company also has undiscounted loans and borrowings of $4,945,017 of which $600,000 are due in 2020 and $4,345,017 are due in 2024, as follows:

	Less than 6 months	6 months to 1 years	1 to 3 years	Over 3 years
Trade and other payables	$ 119,752	$ -	$ -	$ -
Accrued expenses	201,317	-	-	-
Loans and borrowings	-	600,000	-	4,345,017
	$ 321,069	$ 600,000	$ -	$ 4,345,017
Commitments	-	-	-	-
Balance at December 31, 2019	$ -	$ -	$ -	$ -

Market Risk

Currency Risk

The Company has determined its functional currency to be the Canadian and 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 Canadian and U.S. dollar.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time. The Company believes its exposure to currency risk is not significant.

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 year 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 the 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 the preparation of the 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 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 consolidated financial statements of the Company, delegates to management the responsibility for the preparation of the 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 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 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 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

Sub Receipt Debenture Conversion

In January and March 2020, the Company issued an aggregate of 48,181 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 ($1.15) per share.

Acquisition

In January 2020, the Company acquired all of the outstanding shares of CA Licensed Lenders LLC for its California lenders license, 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 consideration of $133,244.

Share Swap

In January 2020, the Company entered into a strategic partnership and cooperation agreement with KushCo Holdings Co. Inc. (“KushCo”) whereby the Company issued 10,600.3 proportionate voting shares at a share price of $0.38CAD ($0.29) for total consideration of $3,061,815 in exchange for 1,653,081 shares of KushCo valued at an amount equal to the consideration given up by the Company. On completion of the share swap, KushCo became a 19.9% shareholder of the Company.

New Lease

In January 2020, the Company announced it had entered into a new revenue leasing agreement with Lehua Group LLC, USA, a multi-state, licensed cannabis processor specializing in THC-infused beverages.

Option Grant

In April 2020, the Company granted 1,808,889 stock options to the Company’s management team, employees and external consultants in exchange for a 30% reduction in their compensation. The stock options have an exercise price of $0.22CAD, expire five years from the date of issuance and vested immediately.

Coronavirus

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout Canada and the United States. The spread of COVID-19 has caused significant volatility in Canadian, U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as

well as its impact on the Canadian, U.S. and international economies and, as such, the Company is unable to determine if it will have a material impact to its operations.

Servicing Equipment Sale

In January 2020, the Company sold a single piece of servicing equipment back to the original supplier of the equipment, Khrysos, for gross proceeds of $250,000.