Xtraction Services Holdings Corp.

Consolidated Financial Statements

December 31, 2019 and 2018

(Expressed in United States Dollars)

Xtraction Services Holdings Corp.

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Independent Auditor's Report

To the Shareholders of Xtraction Services Holdings Corp.

Opinion

We have audited the consolidated financial statements of Xtraction Services Holdings Corp. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Company for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on August 22, 2019.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists,

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we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Koko Yamamoto.

McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 28, 2020

Xtraction Services Holding Corp.
Consolidated statements of loss and comprehensive loss
For the years ended December 31, 2019 and 2018
(Expressed in United States dollars)

	Note	Year ended December 31, 2019	Year ended December 31, 2018
Revenue	5	$ 2,289,817	$ 146,776
Cost of sales	6	2,616,203	1,135,833
Gross loss		(326,386)	(989,057)
Administrative expenses	6	3,933,513	2,813,464
Sales and marketing expenses	6	216,066	762,098
Loss from operations		(4,475,965)	(4,564,619)
Interest and finance income		(17,723)	-
Financing expense, net	15	773,492	471,113
Accretion expense	15	1,493,164	1,052,981
Listing expense	4	363,095	-
Change in fair value of derivative liabilities	15,16	(889,229)	(250,043)
Loss on sale of property, plant and equipment and servicing equipment	11,12	658,845	-
Impairment of intangible asset	13	472,262	-
Loss before income tax		(7,329,871)	(5,838,670)
Income tax (recovery) expense	19	(383,025)	975
Net loss		$ (6,946,846)	$ (5,839,645)
Other comprehensive loss			
Items that will subsequently be reclassified to operations:			
Unrealized loss on foreign currency translation		(24,685)	-
Comprehensive loss		$ (6,971,531)	$ (5,839,645)
Loss per share - basic and diluted		$ (0.18)	$ (0.21)
Weighted average shares outstanding:			
Basic and diluted		37,562,660	28,385,149

Approved on behalf of the Board:

Gary Herman, Director

Stephen Christoffersen, Director

The accompanying notes are an integral part of these consolidated financial statements.

Xtraction Services Holding Corp.
Consolidated statements of financial position
As of December 31, 2019 and 2018
(Expressed in United States dollars)

	Note	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash		$ 2,487,293	$ 534,148
Trade and other receivables, net	7	124,715	36,421
Financing receivables, short-term	8	480,466	-
Inventories	9	36,052	96,166
Prepaid and other current assets	10	244,581	109,961
Total current assets		3,373,107	776,696
Non-current assets			
Servicing equipment	11	783,195	2,479,196
Prepaid servicing equipment	11	-	2,770,397
Property, plant and equipment	12	7,506	65,678
Intangible asset	13	-	599,900
Financing receivables, long-term	8	310,798	-
Total non-current assets		1,101,499	5,915,171
Total assets		$ 4,474,606	$ 6,691,867
Shareholders' equity and liabilities			
Current liabilities			
Loans and borrowings, short-term	15	$ 600,000	$ 7,658
Trade and other payables	17	119,752	210,267
Accrued expenses	18	201,317	219,418
Unearned revenue	5	-	1,021,917
Amounts due to related parties	21	-	118,654
Warrant derivative liabilities	16	-	50,031
Redeemable common stock	15	650,000	650,000
Total current liabilities		1,571,069	2,277,945
Non-current liabilities			
Loans and borrowings, long-term	15	1,978,544	4,216,627
Embedded derivative liabilities	15	-	1,091,514
Total non-current liabilities		1,978,544	5,308,141
Total liabilities		3,549,613	7,586,086
Shareholders' equity			
Share capital	14	10,342,678	4,737,813
Reserves		3,234,686	582,670
Conversion feature - debentures	15	958,935	-
Accumulated other comprehensive loss		(24,685)	-
Accumulated deficit		(13,586,621)	(6,214,702)
Total shareholders' equity		924,993	(894,219)
Total shareholders' equity and liabilities		$ 4,474,606	$ 6,691,867

Nature of operations and background information (Note 1)
Going concern (Note 1)
Commitments and contingencies (Note 21)
Subsequent events (Note 23)

The accompanying notes are an integral part of these consolidated financial statements.

Xtraction Services Holding Corp.
Consolidated statements of changes in equity
For the years ended December 31, 2019 and 2018
(Expressed in United States dollars)

	Note	Class A member units	Class B member units	Members' capital	Number of Common Shares	Number of ate Common Shares	Share Capital	Reserves	Conversion feature for debentures	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance at January 1, 2018 [(1)]		25,000,000	-	$ 2,188,822	-	-	$ -	$ -	$ -	$ -	$ (375,057)	$ 1,813,765
Fair value allocation of loan borrowing proceeds	15	-	-	1,410,526	-	-	-	302,817	-	-	-	1,713,343
Exchange of Class A member units to Class A common stock	14	(25,000,000)	-	(3,599,348)	25,000,000	-	3,902,165	(302,817)	-	-	-	-
Conversion of convertible debentures to Class A common stock	15	-	-	-	6,737,588	-	377,458	101,675	-	-	-	479,133
Issuance of Class A common stock	14	-	-	-	85,000	-	51,000	-	-	-	-	51,000
Issuance of Class B restricted units and common stock	14	-	1,098,586	-	678,650	-	407,190	-	-	-	-	407,190
Cancellation of Class B restricted units	14	-	(1,098,586)	-	-	-	-	-	-	-	-	-
Issuance of warrants to third party providers		-	-	-	-	-	-	13,413	-	-	-	13,413
Share-based incentive compensation	20	-	-	-	-	-	-	467,582	-	-	-	467,582
Net loss and comprehensive loss		-	-	-	-	-	-	-	-	-	(5,839,645)	(5,839,645)
Balance at December 31, 2018		-	-	$ -	32,501,238	-	$ 4,737,813	$ 582,670	$ -	$ -	$ (6,214,702)	$ (894,219)
Balance at January 1, 2019		-	-	$ -	32,501,238	-	$ 4,737,813	$ 582,670	$ -	$ -	$ (6,214,702)	$ (894,219)
Issuance of Class A common stock	14	-	-	-	757,500	-	626,874	-	-	-	-	626,874
Fair value allocation of loan borrowing proceeds	15	-	-	-	-	-	-	263,587	-	-	-	263,587
Issuance of proportionate voting shares	14	-	-	-	(17,737,588)	17,737	-	-	-	-	-	-
Shares issued to Caracara shareholders	4, 14	-	-	-	3,896,958	-	953,167	-	-	-	-	953,167
Conversion of Series B and Series C debentures to common stock and warrants	14	-	-	-	10,050,378	359	4,498,139	1,101,800	-	-	-	5,599,939
Conversion feature of Sub Receipt debentures, net of tax	15	-	-	-	-	-	-	-	1,019,572	-	-	1,019,572
Conversion feature of convertible debentures	15	-	-	-	-	-	-	-	47,265	-	-	47,265
Conversion of Sub Receipt debentures to common stock and warrants	14	-	-	-	413,636	-	170,169	88,952	(107,902)	-	-	151,219
Share-based incentive compensation	20	-	-	-	-	-		641,191	-	-	-	641,191
Issuance of common stock to consultants, brokers and advisors	14	-	-	-	727,273	-	331,406	-	-	-	-	331,406
Issuance of warrants for services	16	-	-	-	-	-		649,341	-	-	-	649,341
Share repurchase	11, 14	-	-	-	(622,631)	(5,889)	(974,890)	(92,855)	-	-	(425,073)	(1,492,818)
Net loss and comprehensive loss		-	-	-	-	-		-	-	(24,685)	(6,946,846)	(6,971,531)
Balance at December 31, 2019		-	-	$ -	29,986,764	12,207	$ 10,342,678	$ 3,234,686	$ 958,935	$ (24,685)	$ (13,586,621)	$ 924,993

Note to table:

1) In March 2018 the Company had a 25 for 1 unit split (note 14).

The accompanying notes are an integral part of these consolidated financial statements.

Xtraction Services Holding Corp.
Consolidated statements of cash flows
For the years ended December 31, 2019 and 2018
(Expressed in United States dollars)

	Note	Year ended December 31, 2019	2018
Cash flows from operating activities			
Loss for the year		$ (6,946,846)	$ (5,839,645)
Adjustments to reconcile loss to net cash flows:			
Depreciation and amortization	11,12,13	502,582	403,550
Deferred tax (recovery)	19	(384,000)	-
Gain on sale of servicing equipment to a customer	11	(346,557)	(68,249)
Loss on sale of servicing equipment and property, plant and equipment to vendors and third party buyers	11,12	658,845	-
Impairment losses	11,13	579,140	100,783
Noncash finance lease income	8	66,138	-
Incentive compensation expense	20	641,191	874,772
Warrants and debentures issued for services	15,16	1,199,873	13,413
Finance and accretion expense	15	1,493,164	1,137,978
Listing expense	4	363,095	-
Change in fair value of embedded derivative liabilities	15, 16	(889,229)	(250,043)
Purchases of equpment for finance leases	11	(701,048)	-
Proceeds from finance lease receivables	8	134,000	-
		(3,629,652)	(3,627,441)
Change in working capital items:			
Trade and other receivables	7	(47,294)	(36,421)
Inventories	9	(1,100)	(87,525)
Prepaid and other current assets	10	(53,572)	(106,461)
Trade and other payables	17	(87,311)	185,542
Accrued expenses	18	409,923	209,628
Unearned revenue		(15,375)	20,000
Aamounts due to related parties	21	(33,648)	(106,332)
Net cash flows used in operating activities		(3,458,029)	(3,549,010)
Cash flows from investing activities			
Proceeds from the sale of servicing equipment and property, plant and equipment	11,12	867,755	1,070,166
Purchases of servicing equipment	11	-	(3,867,811)
Purchases of property, plant and equipment	12	(1,180)	(72,316)
Cash acquired as part of reverse acquisition	4	698,858	-
Net cash flows provided by (used in) investing activities		1,565,433	(2,869,961)
Cash flows from financing activities			
Proceeds from loans and borrowings	15	1,100,000	6,323,715
Proceeds from issuance of Sub Receipt debentures	15	4,472,085	-
Repayment of debt	15	(1,149,664)	(3,051)
Payment of debt issuance and deferred financing costs	15	(551,995)	(215,592)
Net cash flows provided by financing activities		3,870,426	6,105,072
Effect of exchange rate changes on cash		(24,685)	-
Net increase (decrease) in cash		1,953,145	(313,899)
Cash at beginning of the year		534,148	848,047
Cash at end of the year		$ 2,487,293	$ 534,148

The accompanying notes are an integral part of these consolidated financial statements.

Xtraction Services Holding Corp.
Consolidated statements of cash flows
For the years ended December 31, 2019 and 2018
(Expressed in United States dollars)

Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 394,313	$ 264,563
Supplemental disclosure of non-cash transactions:			
Non-cash investing and financing activities			
Purchases of servicing equipment included in trade and other payables and amounts due to related parties	17,21	$ -	$ 95,830
Discount on loan borrowings proceeds	15	228,183	1,713,343
Debt issuance costs - warrants and common stock issued	14,15,16	505,764	101,031
Issuance of convertible debt, net of discount of $163,563	15	58,370	-
Issuance of warrants to service providers, consultants and and Series C debenture holders	16	1,199,873	-
Issuance of warrants on conversion of Sub Receipt debentures	16	88,952	-
Issuance of embedded derivative liabilities	15	135,180	1,341,557
Conversion of convertible debt to common stock	14,15	-	479,133
Conversion of Series B and Series C convertible debt to common stock and warrants	14	5,599,939	-
Conversion of Sub Receipt convertible debt to common stock and warrants	14	170,169	-
Conversion of convertible debt to redeemable common stock	15	-	650,000
Servicing equipment sold and reduction to deferred revenue	11	1,006,542	68,249
Share buyback	14	1,492,818	-

The accompanying notes are an integral part of these consolidated financial statements.

(1) Nature of operations and background information

Xtraction Services Holdings Corp. ("Xtraction Services", or "the Company") 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 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 and operates in one business segment in one geographic area. Its registered office is located at 1901 Avenue of The Stars, Suite 120, Los Angeles, California 90067, USA.

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.

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) (note 4). As XSI was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these 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. The comparative figures are those of XSI prior to the reverse acquisition.

The accompanying consolidated financial statements have been approved by the Company’s board of directors and are authorized for issuance as of April 28, 2020.

Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards and Interpretations (collectively IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis of consolidation

Subsidiaries are entities over which the Company has control, where control is defined to exist when the Company is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries, Xtraction Services, Inc. incorporated in Delaware, United States, and CSI Princesa Inc. incorporated in Ontario, Canada. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements of loss and comprehensive loss from the effective date of acquisition up to the effective date of disposal, as appropriate.

All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

Functional and presentation currency

The consolidated financial statements of the Company are presented in U.S. dollars (USD). The functional currency of the Company and CSI Princesa Inc., its Canadian subsidiary, is the Canadian dollar. The functional currency of Xtraction Services, Inc. is the U.S. dollar.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value through profit and loss. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Use of estimates and judgement

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires the management of the Company to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated financial statements and their effect are disclosed in note 3 below.

Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses and negative cash flows from operations since inception, and has an accumulated deficit of $13,586,621 and $6,214,702 as of December 31, 2019 and 2018, respectively. 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 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. The consolidated financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

The operations of the Company are subject to certain risks and uncertainties including, among others: uncertainty of product development; technological uncertainty; commercial acceptance of any developed products; dependence on collaborative partners; uncertainty regarding patents and proprietary rights; comprehensive government regulations; market risk; and dependence on key personnel.

(2) Significant accounting policies

Cash

The Company’s cash consists of immediately available fund balances and is maintained at recognized US banks that are insured through the FDIC. The Company maintained no cash equivalents as of December 31, 2019 and 2018.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventories are determined on a first-in-first-out (FIFO) or specific identification basis. Net realizable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

Property, plant and equipment

Property plant and equipment is stated at the aggregate cost incurred to acquire and place the assets in service. Expenditures for routine maintenance and repairs are charged to expense as incurred and costs of improvements and renewals are capitalized.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method when the assets are available for use. Depreciation of property, plant and equipment is included in cost of sales expenses and administrative expenses in the consolidated statements of loss and comprehensive loss. Estimated useful lives have been determined as follows:

	Estimated useful lives
Computers	3 years
Machinery and equipment	5 years
Vehicles	5 years

Servicing equipment

Servicing equipment is comprised of extraction, processing, distillation and related equipment, and is stated at the aggregate cost incurred to acquire and place the assets in service. Expenditures for routine maintenance and repairs are charged to expense as incurred and costs of improvements and renewals are capitalized.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method when the assets are available for use. Depreciation of servicing equipment is included in cost of sales in the consolidated statements of loss and comprehensive loss. Estimated useful lives have been determined as follows:

	Estimated useful lives
Extraction and ancillary equipment	
extraction equipment	7 - 10 years
Pre-processing equipment	5 years
Post-processing equipment	5 years
Distillation equipment	5 years
Analytical and other equipment	3 years

Intangible assets acquired

Intangible assets with finite useful lives that are acquired are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization of the purchase and intellectual property rights is included in cost of sales in the consolidated statements of loss and comprehensive loss.

Long-lived assets

Long-lived assets, such as property, plant and equipment, 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. The recoverable amount is the higher of an asset's fair value, less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or cash –generating units. Fair value is determined using various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Revenue recognition

The Company's revenue is derived from providing and leasing extraction, processing, distillation and related equipment ("servicing equipment") used to extract and distill oil from Cannabis and Hemp plants. The products and services offered by the Company include: (i) the sale or lease of its equipment and processes; (ii) the provision of on-site services; and (iii) the provision of analytical services.

The Company recognizes revenue using the following five step model to analyze revenue transactions:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

Leasing and royalty arrangements

Revenue from the leasing of servicing equipment is based on the type of lease entered into with each customer. Each lease is classified as either a financing lease or operating lease. If a lease meets one or more of the criteria listed below and both the collectability of the minimum lease payments is reasonably predictable and there are no material uncertainties surrounding the amount of un-reimbursable costs yet to be incurred, the lease is classified as a financing lease; otherwise, it is classified as an operating lease:

- The lease transfers ownership of the asset to the customer by the end of the lease term.
- The customer has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date that the option will be exercised.
- The lease term is for the major part of the economic life of the asset even if title is not transferred.
- At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the asset.
- The asset is of such a specialized nature that only the customer can use it without major modifications.

The Company recognizes a finance lease when it transfers substantially all the risks and rewards incidental to ownership of the underlying servicing equipment to the customer. This finance lease (in-substance sale) is recognized as profit or loss as measured on acceptance, usually automatic after delivery, installation and testing. Financing is separated from the contract, computed at the customer's incremental borrowing rate for equipment. When contracts contain non-lease components such as maintenance, professional services and or other deliverables, the Company separates and allocates transaction price to those individual components.

A lease that does not transfer substantially all the risks and rewards incidental to the ownership of the asset, is determined to be an operating lease. Revenue from operating leases is recognized ratably on a straight-line basis over the term of the lease agreement.

Revenue from the sale of the residual asset at the end of a lease term is recognized at the date of sale.

As of December 31, 2019, the Company had two lease agreements that qualified as finance leases (note 8). As of December 31, 2018, the Company had not entered into any lease agreements that qualified as finance leases.

Revenue from royalties generated on servicing equipment leased to customers is based upon monthly equipment output, and is recognized based on actual production.

Equipment sales

Revenue from the sale of equipment is generally recognized on a gross basis with the sales price to the customer recorded as revenue and the acquisition cost of the product recorded as cost of sales. Revenue is recognized at a point in time when the title and risk of loss are passed to the customer upon shipment or delivery. The Company's equipment vendors provide warranties to the Company's customers on equipment sold and as such the Company has not estimated a warranty reserve or deferred revenue for potential warranty work.

Professional services

Revenue from professional services, performed or contracted independently, and not related to another contract is recognized over time as costs are incurred assuming probable collection and the performance obligation is met.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of loss and comprehensive loss in the year in which they arise.

b) Receivables: Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's receivables comprise trade and other receivables and financing receivables, and are initially recognized at fair value. Subsequently, receivables are measured at amortized cost using the effective interest method less a provision for impairment.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments (including all fees and points paid or received that form and integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

c) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and other payables, accrued expenses, loans and borrowings, and amounts due to related parties which include the term loans and the underlying debenture component of the convertible debentures. Financial liabilities are initially recognized at fair value, net of directly attributable transaction costs.

d) Compound financial instruments are initially measured at fair value less 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 a 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.

Where the currency of the conversion price of a conversion option is different than the functional currency of the legal entity in which they were issued, the conversion option component is accounted for as a derivative liability. For the Company’s conversion options denominated in Canadian dollars where the Company’s functional currency was in U.S. dollars, the conversion option component is accounted for as a derivative liability, which is measured at fair value using the Black-Scholes valuation model. In this case, the liability component of a compound financial instrument is recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the conversion option component. Any directly attributable transaction costs are allocated to the liability and conversion option components in proportion to their initial carrying amounts. Costs allocated to the derivative liability conversion feature are expensed on initial recognition.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The

conversion option component classified as a derivative liability is subsequently revalued every reporting period using market-based valuation techniques. Gains and losses from changes in fair value are recorded in the consolidated statement of loss.

Interest related to the convertible debentures is recognized in the consolidated statements of loss and comprehensive loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

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.

Fair value of financial instruments

The Company categorizes its financial assets and liabilities measured and reported at fair value in the consolidated 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 that are accessible at the measurement date for identical, unrestricted assets or liabilities
- *Level 2*: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liabilities
- *Level 3*: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity)

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.

Company management assessed that cash, trade and other receivables, trade and other payables, accrued expenses, and amounts due to related parties approximate their carrying amounts largely due to the short-term maturities of these instruments. There is no organized market for the finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.

The following fair value hierarchy table presents information about each major category of the Company's financial liabilities measured at fair value on a recurring basis:

The warrant derivative and embedded derivative liabilities were valued at fair value using a Black-Scholes model while probability weighting various expected exercise prices (notes 15 and 16). The estimated fair value of the warrant derivative and embedded derivative liabilities would increase or decrease if the expected volatility and conversion price was higher or lower.

As at December 31, 2019, the Company did not have any financial instruments measured at fair value. As at December 31, 2018, the Company had the following financial instruments measured at fair value:

	Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
As of December 31, 2018:				
Liabilities:				
Warrant derivative liabilities (note 16)	$ -	$ -	$ 50,031	$ 50,031
Embedded derivative liabilities (note 15)	-	-	1,091,514	1,091,514
	$ -	$ -	$ 1,141,545	$ 1,141,545

The following table shows a reconciliation during the years ended December 31, 2019 and 2018 for Level 3 fair values:

	Warrant derivative liabilities	**Embedded derivative liabilities**	**Total**
Balance at December 31, 2017	$ -	$ -	$ -
Warrants issued to investment advisors (note 16)	50,031	-	50,031
Series C convertible debt conversion option (note 15)	-	1,341,557	1,341,557
Net change in fair value (unrealized)	-	(250,043)	(250,043)
Balance at December 31, 2018	$ 50,031	$ 1,091,514	$ 1,141,545
Net change in fair value (unrealized)	-	(889,229)	(889,229)
Reduction in embedded derivative liability as a result of Series C debenture conversion (note 15)	-	(290,200)	(290,200)
Convertible debenture debt conversion option (note 15)	-	135,180	135,180
Reclassification to equity	(50,031)	(47,265)	(97,296)
Balance at December 31, 2019	$ -	$ -	$ -

Transfers between levels are considered to occur on the date that the fair valuation methodology changes. There were no transfers between levels during the current or comparative periods. There were no liabilities at fair value as at December 31, 2019.

Share-based incentive compensation

The Company accounts for share-based awards in accordance with provisions of IFRS 2, Share Based Payments, under which the Company recognizes the grant-date fair value of incentive-based awards issued to employees, consultants and advisors as compensation expense on a graded vesting basis over the vesting period of the award. The Company uses the Black-Scholes option pricing model to determine the grant-date fair value of restricted awards.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity

instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

<u>*Leases*</u>

The Company as Lessor

Refer to the revenue recognition policy note.

The Company as Lessee

Under IFRS 16 beginning January 1, 2019
At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to use an identified asset for a period of time in exchange for consideration. All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

These exceptions are practical expedients that the Company has adopted. Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favor of the Company if it is reasonable certain to assess that option; and
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

Under IAS 17 prior to January 1, 2019
The determination of whether an arrangement is, or contains, a lease is based on the substance of the contractual arrangement at inception date, including whether the arrangement contains the use of a specific asset and the right to use that asset. Where the Company receives substantially all the risks and rewards of ownership of the asset, these arrangements are classified as finance leases. Finance leases are recorded as an asset with a corresponding liability at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance costs using the effective interest method, with the interest element of the lease charged to the consolidated statements of loss and comprehensive loss as a finance cost. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are classified as operating leases. Operating lease payments are recognized in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term.

Foreign currency translation
The functional currency accounts are translated into the presentation currency by translating assets and liabilities at exchange rates in effect at the reporting date. Equity accounts are translated at historical exchange rates. Revenues and expenses are translated at the average exchange rate for the period, if this is considered a reasonable approximately to actual rates, or at the rate on the date of the transaction. Any resulting gain or loss is recorded as a component of other comprehensive loss.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period-end exchange rates are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Income taxes

On July 19, 2018, XSI changed its corporate status from a Delaware limited liability company to a Delaware corporation and elected to be taxed as such for federal and state income tax purposes. XSI 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, 2018. Prior to the date of conversion (July 19, 2018), XSI 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 XSI 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.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases.

Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Loss per share

Basic loss per share is computed by dividing the loss by the weighted average number of shares / units outstanding during the period. Diluted loss per share is computed by dividing the loss by the weighted average number of shares / units and other dilutive units outstanding during the period. For the periods presented, the effect of the dilutive instruments on loss per share / units would be anti-dilutive, therefore, basic loss per share / units equals diluted loss per share / units. In 2019 and 2018, there were potentially dilutive shares of 13,580,922 and 9,191,928, respectively, excluded from the loss per share calculation resulting from the assumed exercise of outstanding convertible debt, options and warrants are determined based on the treasury stock method.

New standards and interpretations recently adopted

IFRS 16 Leases ("IFRS 16"): 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 consolidated financial statements and related disclosures upon the adoption of this standard.

IFRIC 23 Uncertainty over income tax treatments "(IFRIC 23")
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 consolidated financial statements as at January 1, 2019 upon the adoption of this standard.

New standards and interpretations not yet adopted

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") 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") 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.

(3) Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in note 2 above, the Company's management are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision

affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the 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. See notes 15 and 16.

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. See note 15.

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

See note 7 and 8.

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. See note 4.

Contingencies

See note 21.

(4) Reverse acquisition

The following table presents the Company's purchase price allocation for the reverse acquisition.

Cash	$	698,858
Other receivable		6,048
Accounts payable and accrued expenses		(114,834)
Net assets acquired		590,072
Purchase price paid:		
3,896,958 common shares	$	953,167
Excess of purchase price paid over net assets acquired allocated to listing expense	$	363,095

On March 22, 2019, XSI entered into a definitive merger agreement with Caracara pursuant to which Caracara, through a whole-owned subsidiary incorporated in the State of Delaware, would acquire all of the issued and outstanding common shares of XSI.

On September 11, 2019, the merger became effective via a "reverse triangular merger", pursuant to which Caracara acquired all of the issued and outstanding class A and class B common shares, stock options and warrants of XSI by way of a merger between XSI and Caracara's wholly-owned subsidiary. As a result of the transaction, the former shareholders of XSI held greater than 50% of the issued and outstanding shares of the resulting issuer. The substance of the transaction is a reverse acquisition of a non-operating company, as Caracara did not meet the definition of a business under IFRS 3. As a result, the transactions has been accounted for as a capital transaction with XSI being identified as the accounting acquirer and the equity consideration being measured at fair value under IFRS 2, using the acquisition method of accounting. The resulting issuer changed its name from Caracara to Xtraction Services Holdings Corp. and continued with the business of XSI.

The issued and outstanding common shares of Caracara were consolidated on the basis of 1 post-consolidation Caracara common share for every 6.262 outstanding Caracara common shares existing immediately before the consolidation. The fair value of the acquisition of 3,896,958 post-consolidation shares of Caracara at a fair value per share of $0.24, based on the quoted price of the shares on the date of the transaction, was $953,167. The purchase price allocation of the merger includes net assets acquired of $590,072, resulting in a listing expense of $363,095.

(5) Revenue

The following table presents a disaggregation of revenue by source and timing of revenue recognition:

	Year ended December 31,	
	2019	**2018**
Revenue source:		
Financing leases	$ 930,342	$ -
Equipment sales	1,015,528	118,131
Operating leases	322,684	12,245
Professional services	-	16,400
Finance income on financing leases	7,715	
Other revenue	13,548	-
	$ 2,289,817	$ 146,776
Timing of revenue recognition under IFRS 15 from contracts with customers:		
Products and services transferred at a point in time	$ 1,015,528	$ 118,131
Services transferred over time	$ 1,266,574	$ 16,400

The Company's largest revenue transaction resulted from the sale of equipment to a single customer that was fully paid in October 2018 with delivery and installation completed in November 2019. At December 31, 2018 the Company had an unsatisfied performance obligation of $1,021,917, related to undelivered servicing equipment, which is reflected as unearned revenue in the statements of financial position. As of December 31, 2019, the performance obligation was satisfied and the amount was recognized as revenue, net of $6,389 that was repaid.

The Company had two operating lease arrangements with customers that generated revenue in the years ended December 31, 2019 and 2018. One arrangement that had expected minimum revenue commitments of $25,000 through June 2020 was terminated in November 2019, due to financial hardship for the customer, and the second arrangement that had expected minimum monthly revenue commitments of $50,000 through December 2021 was amended in January 2020 (note 23), and will be accounted for as a financing lease. As of December 31, 2019, the equipment under lease in the second arrangement had been fully delivered and accepted by the customer.

The Company had $426,316 and $835,605 of servicing equipment (note 11) subject to revenue generated from operating lease arrangements as of December 31, 2019 and 2018, respectively.

Revenue concentration

All of the Company's revenue is derived from customers in the United States with three customers representing 44%, 29% and 16% of the Company's recognized revenue in the year ended December 31, 2019, and three customers representing 47%, 27% and 20% of the Company's recognized revenue in the year ended December 31, 2018.

Xtraction Services Holdings Corp.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in United States Dollars)

(6) Expenses by nature

The following tables presents an analysis of expense by nature:

	Year ended December 31,	
	2019	**2018**
Cost of sales:		
Compensation and benefits	$ 268,006	$ 188,683
Depreciation expense	374,754	250,384
Amortization of intangible	127,638	153,166
Equipment inventory purchases	658,641	145,236
Equipment inventory costs	1,004,195	-
Supplies and materials	90,415	155,218
Maintenance and repair costs	(16,910)	71,267
Other expenses	109,464	171,879
	$ 2,616,203	$ 1,135,833
Administrative expenses:		
Compensation and benefits	$ 62,427	$ 217,159
Incentive compensation	641,191	874,772
Contractors and outside services	297,620	560,550
Management fee	346,401	-
Professional fees	2,213,209	757,356
Office rent, utilities and expenses	52,932	60,991
Travel, meals and entertainment	42,363	223,136
Other expenses	277,370	119,500
	3,933,513	$ 2,813,464
Sales and marketing expenses:		
Compensation and benefits	$ 95,392	$ 250,034
Contractors and outside services	-	99,317
Professional fees	49,083	119,272
Advertising and marketing	61,098	189,695
Trade shows	8,107	68,484
Other expenses	2,386	35,296
	$ 216,066	$ 762,098

(7) Trade and other receivables

The following table presents trade and other receivables:

	December 31, 2019	December 31, 2018
Trade receivables	$ 124,715	$ 6,421
Other receivable (note 21)	-	30,000
	$ 124,715	$ 36,421

The $30,000 receivable at December 31, 2018 was due from Khrysos Global Inc. ("Khrysos"), and consisted of reimbursements for certain marketing expenditures that were repaid in March 2019. There was no allowance on the trade receivables as of December 31, 2019 as the estimated credit losses on the trade receivables were $nil.

(8) Financing receivables

The following table presents financing receivables:

	December 31, 2019	December 31, 2018
Financing receivables, short-term	$ 480,466	$ -
Financing receivables, long-term	310,798	-
	$ 791,264	$ -

The Company has entered into lease arrangements as a lessor that are considered to be finance leases. All of the risks and rewards of ownership of the service equipment assets underlying the finance leases are substantially transferred to the lessee. The Company had no lease arrangements that were considered finance leases during the year ended December 31, 2018.

The following table presents a maturity analysis of lease receivables, including the undiscounted lease payments to be received as at December 31, 2019:

2020	$ 578,850
2021	240,000
2022	226,000
Total undiscounted lease payments receivable	1,044,850
Unearned finance income	(253,586)
Net investment in lease	$ 791,264

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.

As of December 31, 2019, there are no finance receivables past due or impaired and all leases are considered to be Stage 1.

(9) Inventories

Inventories primarily consist of equipment and spare parts that the Company intends to either sell to customers as part of the installation of servicing equipment for customers or for repair orders.

The carrying value of spare parts inventory as of December 31, 2019 and 2018 was $36,052 and $96,166, respectively. The spare parts inventory is being carried at cost, as it is the lower of cost or net realizable value.

The following table presents a continuity of inventory for the year:

	December 31,	
	2019	**2018**
Beginning balance	$ 96,166	$ 8,641
Purchases	-	87,525
Transfer of prepaid servicing equipment	571,375	
Transfer of equipment for customer sale (note 11)	97,597	
Transfer of servicing equipment for finance leases (note 11)	1,023,211	-
Cost of goods sold - finance leases	(1,023,211)	-
Cost of goods sold - customer sale (note 11)	(668,972)	
Transfer to Khrysos (note 11)	(60,114)	-
Write-downs of inventory	-	-
	$ 36,052	$ 96,166

(10) Prepaid and other current assets

The following table presents prepaid and other current assets:

	December 31,	
	2019	**2018**
Prepaid insurance	$ 197,313	$ 54,372
Prepaid consulting services	6,250	45,333
Security deposit	-	3,500
Other	41,018	6,756
	$ 244,581	$ 109,961

(11) Servicing equipment

The following table below presents the change in carrying value of the Company's servicing equipment during the years ended December 31, 2019 and 2018:

	Extraction and ancillary extraction equipment	Pre-Processing equipment	Post-Processing equipment	Distillation equipment	Anlytical and other equipment	Total
Cost:						
Balance at December 31, 2017	$ 567,806	$ -	$ -	$ -	$ -	$ 567,806
Additions	1,484,625	17,118	545,303	176,698	45,694	2,269,438
Impairment loss	-	-	(101,171)	-	-	(101,171)
Balance at December 31, 2018	$ 2,052,431	$ 17,118	$ 444,132	$ 176,698	$ 45,694	$ 2,736,073
Additions	667,586	19,325	313,947	115,592	111,643	1,228,093
Equipment sales	(1,123,066)	-	(222,021)	(180,031)	(42,159)	(1,567,277)
Customer equipment sale	-	-	(97,597)	-	-	(97,597)
Equipment for stock trade	-	(17,118)	(66,269)	-	(1,502)	(84,889)
Transfer to inventories (note 9)	(851,436)	(4,872)	(132,947)	(112,259)	(74,294)	(1,175,808)
Impairment	(106,878)	-	-	-	-	(106,878)
Balance at December 31, 2019	$ 638,637	$ 14,453	$ 239,245	$ -	$ 39,382	$ 931,717
Accumulated Depreciation:						
Balance at December 31, 2017	$ (13,519)	$ -	$ -	$ -	$ -	$ (13,519)
Depreciation	(223,500)	(1,605)	(8,724)	(3,333)	(6,584)	(243,746)
Impairment loss	-	-	-	388	-	388
Balance at December 31, 2018	$ (237,019)	$ (1,605)	$ (8,724)	$ (2,945)	$ (6,584)	$ (256,877)
Depreciation	(268,369)	(5,252)	(67,717)	(20,670)	(16,746)	(378,754)
Equipment sales	245,282	-	30,889	23,615	14,528	314,314
Equipment for stock trade	-	5,028	14,252	-	918	20,198
Transfer to inventories (note 9)	151,824	75	698	-	-	152,597
Balance at December 31, 2019	$ (108,282)	$ (1,754)	$ (30,602)	$ -	$ (7,884)	$ (148,522)
Net book value:						
Balance at December 31, 2018	$ 1,815,412	$ 15,513	$ 435,408	$ 173,753	$ 39,110	$ 2,479,196
Balance at December 31, 2019	530,355	12,699	208,643	-	31,498	783,195

All of the servicing equipment is located in the United States.

Equipment sales

Throughout 2019, the Company sold servicing equipment to third party buyers. The total of these transactions resulted in the Company receiving gross proceeds of $292,200 with recognized losses of $66,726 recorded as a loss on sale of servicing equipment in the consolidated statements of loss and comprehensive loss for year ended December 31, 2019.

Throughout 2019, the Company sold servicing equipment back to the original supplier of the equipment, Khrysos (note 21). The total of these transactions resulted in the Company receiving gross proceeds of $529,175 with recognized losses of $496,666 recorded as a loss on sale of servicing equipment in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

In November 2019, the Company and Khrysos entered into an agreement that released the Company from any obligations associated with the purchase commitment in exchange for the Company returning previously purchased servicing equipment. Pursuant to this agreement, the Company returned service equipment with a net book value of $279,479 to Khrysos in exchange for the release from any future obligations and commitments, and recorded a loss on disposition of the equipment of $279,479 included in loss on sale of servicing equipment.

Customer equipment sale

During 2018 and 2019 the Company delivered servicing equipment associated with the customer equipment sale (note 5). In total, the Company sold equipment with a net book value of $668,972 in 2019 of which $97,597 was servicing equipment and $571,375 was transferred from prepaid servicing equipment in the prior year. The Company recorded the proceeds in revenues and recognized a gross margin on the sale of the servicing equipment of $346,557 and $68,249 in the years ended December 31, 2019 and 2018, respectively.

Equipment sold in exchange for return of common stock

During the year ended December 31, 2018, the Company had paid Khrysos a total of $1,241,035 for equipment that had not yet been received. In December 2019, the Company reached an agreement with two shareholders of the Company, Khrysos, and a former employee of the Company who is now an employee of Khrysos, to forgive delivery of the prepaid equipment and return of spare parts inventory of $60,114 in exchange for the return of 5,889 proportionate voting shares of the Company held by Khrysos and 622,631 common shares of the Company held by the former employee. The fair value of the shares at the time of the exchange was estimated to be $1,399,963. The $425,073 difference 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 $92,855 (note 20) were also cancelled. A gain of $191,670 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. The gain has been included in the loss on sale of servicing equipment in the consolidated statements of loss and comprehensive loss.

Finance lease sales

The Company is a lessor for lease arrangements considered to be finance leases (note 8). As a result of substantially all of the risks and rewards of ownership of the servicing equipment transferring to the lessee, the Company transfers the net book value of the servicing equipment to inventories.

Impairment loss

The Company recorded an impairment loss of $106,878 in other expenses in cost of goods sold within the consolidated statements of loss and comprehensive loss in the year ended December 31, 2019 related to a single piece of extraction equipment. The Company determined that net book value of the underlying equipment exceeded the value that could be recovered through a subsequent sale of the equipment.

The Company recorded an impairment loss of $100,783 in other expenses in cost of goods sold within the consolidated statements of loss and comprehensive loss in the year ended December 31, 2018 related to damaged equipment.

Prepaid servicing equipment

Prepaid servicing equipment represents servicing equipment purchased but not yet installed or delivered at a customer site, and servicing equipment that has yet to be allocated to a specific customer site. The carrying value of prepaid service equipment at December 31, 2018 was $2,770,397. As a result of the equipment exchanged for return of common shares and other equipment sales, the Company reduced the carrying value of prepaid servicing equipment to $Nil at December 31, 2019.

Depreciation expense related to servicing equipment is included in cost of sales within the consolidated statements of loss and comprehensive loss.

(12) Property, plant and equipment

The following table below presents the change in carrying value of the Company's property plant and equipment during the years ended December 31, 2019 and 2018:

	Computers	Machinery and equipment	Vehicle	Total
Cost:				
Balance at December 31, 2017	$ -	$ -	$ -	$ -
Additions	11,111	3,490	57,715	72,316
Balance at December 31, 2018	$ 11,111	$ 3,490	$ 57,715	$ 72,316
Additions	1,180	-	-	1,180
Equipment sales	(3,997)	-	(57,715)	(61,712)
Balance at December 31, 2019	$ 8,294	$ 3,490	$ -	$ 11,784
Accumulated Depreciation:				
Balance at December 31, 2017	$ -	$ -	$ -	$ -
Depreciation	(1,056)	(291)	(5,291)	(6,638)
Balance at December 31, 2018	$ (1,056)	$ (291)	$ (5,291)	$ (6,638)
Depreciation	(2,757)	(698)	(1,924)	(5,379)
Equipment sales	524	-	7,215	7,739
Balance at December 31, 2019	$ (3,289)	$ (989)	$ -	$ (4,278)
Net book value:				
Balance at December 31, 2018	$ 10,055	$ 3,199	$ 52,424	$ 65,678
Balance at December 31, 2019	5,005	2,501	-	7,506

All of the property, plant and equipment is located in the United States.

In March 2019, the Company sold a vehicle and computer equipment to Khrysos (note 21) for gross proceeds of $46,380 and Khrysos' assumption of the vehicle loan for a loss of $7,593

included in loss on sale of property, plant and equipment in the consolidated statement of loss and comprehensive loss.

Depreciation expense related to property, plant and equipment is included in cost of sales expenses within the consolidated statements of loss and comprehensive loss.

(13) Intangible asset

The following table below shows the change in carrying value of the Company's intangible asset during the years ended December 31, 2019 and 2018:

		Purchase exclusivity and intellectual property rights
Cost:		
Balance at December 31, 2017	$	765,830
Additions		-
Balance at December 31, 2018	$	765,830
Additions		-
Impairment		(765,830)
Balance at December 31, 2019	$	-
Accumulated Depreciation:		
Balance at December 31, 2017	$	(12,764)
Depreciation		(153,166)
Balance at December 31, 2018	$	(165,930)
Depreciation		(127,638)
Impairment		293,568
Balance at December 31, 2019	$	-
Net book value:		
Balance at December 31, 2018	$	599,900
Balance at December 31, 2019		-

The value of the intangible asset was determined based on the fair value of XSI's membership units on the date (October 26, 2017) the Company entered into a joint venture and commercial arrangements agreement with Khrysos which was subsequently amended and restated on December 7, 2017, whereby Khrysos was granted a 40% ownership interest in the Company in exchange for the Company receiving purchase and intellectual property rights and an exclusive right to offer for sale, purchase, sell, lease and or use any equipment designed for the cannabis industry produced by Khrysos or any of its affiliates. 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. See also note 21.

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, thereby terminating the mutual exclusivity. In November 2019, the Company and

Khrysos entered into an agreement that released the Company from 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 $472,262 within consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

Amortization expense for the purchase and intellectual property rights is included in cost of sales within the consolidated statements of loss and comprehensive loss.

(14) Share capital

At December 31, 2018, XSI had 225,000,000 authorized and 31,822,588 issued and outstanding Class A common shares with a par value of $0.0001, and 25,000,000 authorized and 678,650 issued and outstanding Class B common shares with a par value of $0.0001.

Upon XSI's merger with Caracara (note 4) all of XSI's issued and outstanding Class A and Class B common shares were converted to common and proportionate voting shares of the resulting issuer.

As at December 31, 2019, the Company has an unlimited number of authorized common and proportionate voting shares with no par value. Proportionate voting shares can be converted into common shares at the option of the holders at a ratio of 1,000 to 1 upon approval of the Company's Resulting Issuer Board and satisfaction of the condition that greater than 40% of common and proportionate shareholders are US residents. On all voting matters, common shareholders are entitled to one vote and proportionate voting shareholders are entitled to 1,000 votes per proportionate voting share. Generally, in all other matters the proportionate voting shareholders have the same rights as the common shareholders and will be treated as if they were one class of shares. At December 31, 2019, the Company had 29,986,764 issued and outstanding common shares and 12,207 issued and outstanding proportionate voting shares.

Share and member unit issuances

In March 2018, XSI completed a 25 for 1 unit split resulting in 250,000,000 authorized units of which 225,000,000 were designated as Class A units and 25,000,0000 were designated as Class B units. The Class B units were deemed non-voting profit interests to participate in profits in excess of agreed upon thresholds. Profit and loss and distributions priorities were allocated to extent of each members' capital contributions and pro-rata thereafter, provided that Class B members were only distributed to the extent of their profits interest.

In July 2018, XSI elected to be classified as a corporation resulting in the conversion of all authorized Class A and Class B member units to authorized Class A and Class B common stock with a par value of $0.0001. The outstanding Class A member units of 25,000,000 were converted into an equal number of Class A common stock. The 1,098,586 of Class B restricted units were exchanged (note 20) and XSI issued 419,936 stock options (note 20) and 678,650 of Class B common stock. The Class B common stock was valued based on the fair value of XSI's

common stock on the date of modification at $0.60 per share resulting in non-cash compensation expense of $407,190 within the consolidated statements of loss and comprehensive loss in the year ended December 31, 2018. The fair value of XSI's stock was based on a recent transaction approach. Additionally in conjunction with election to be treated as a corporation, Archytas Ventures LLC ("Archytas", see note 21) and another member exercised the conversion option of their convertible debentures (note 15) and received 6,737,588 shares of Class A common stock.

In September 2018, XSI issued 85,000 shares of Class A common stock valued based on the estimated fair value of XSI's common stock on the date of grant at $0.60 per share to an investment advisor in connection with the issuance of the Series B debentures. The fair value of XSI's stock was based on a recent transaction approach. The Company recorded $51,000 as debt issuance costs within the consolidated statements of financial position, and amortized the costs to interest expense over the life of the Series B debentures under the effective interest rate method until September 2019 when the Series B debentures were converted into common shares.

In April 2019, XSI issued 620,000 shares of Class A common shares valued based on the estimated fair value of XSI's common shares on the date of grant at $0.83 per share to investment advisors in connection with services rendered for transaction advisory guidance and structuring and the raise of debt subscriptions. The fair value of XSI's common shares issued was determined based on a market approach using recent equity transactions entered into between XSI and third parties. The Company recorded $464,800 as professional fees within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 related to transactional advisory services, and $49,800 as debt issuance costs within the statements of financial position related to the debt subscription raise and is amortizing the costs to interest expense over the life of the Sub Receipt debentures under the effective interest rate method

In May 2019, XSI issued 92,045 Class A common shares valued based on the estimated fair value of XSI's common shares on the date of grant at $0.82 per share to third party service provider for services to be rendered in future months. The estimated fair value of XSI's common shares issued was determined based on a market approach using recent equity transactions entered into between XSI and third parties. The Company recorded $75,000 as a prepaid expense within the statements of financial position and has amortized $68,750 to professional fees within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019. As of December 31, 2019, $6,250 was reflected as a prepaid expense within the statements of financial position.

In May 2019, XSI sold 45,455 shares of Class A common shares to a service provider at a price of $1.10CAD ($0.82), with such proceeds being used to pay another service provider, which is an entity that is a related party to the shareholder. The Company recorded $37,273 as professional fees within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

In September 2019, Caracara shareholders received 3,896,958 common shares of the resulting issuer as consideration in connection with the reverse acquisition (note 4) at a price of $0.24. The fair value of the common shares was based on the closing value of the Company's stock on the first day of trading on the CSE.

In September 2019, the Company issued 10,050,378 shares of common shares and 359 proportionate voting shares common shares on the conversion of the Series B and Series C convertible debentures (note 15). Total shareholders' equity increased $5,599,939 as a result of these conversions and the related reclassification of the embedded derivative liabilities associated with the Series C debentures.

In September and November 2019, the Company issued 363,636 and 50,000 shares of common shares, respectively, on the conversion of Sub Receipt debentures (note 15). Total shareholders' equity increased $151,219 as a result of this conversion.

In November and December 2019, the Company issued a combined 563,637 shares of common shares to consultants, brokers and advisors at prices ranging from $0.20CAD ($0.15) - $1.10CAD ($0.83) in settlement of outstanding obligations. The Company recorded $196,540 as professional fees within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019. Additionally, as of December 31, 2019 the Company has reflected an expense of $134,866 for the issuance of 163,636 shares of common shares at a price of $1.10CAD ($0.85) within the statements of financial position and recorded as professional fees within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019. A director and officer of the Company received 150,000 common shares for consulting services.

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' proportionate voting shares of 5,889 and the former employee's common shares of 622,631 in exchange for servicing equipment and spare parts inventory valued at $1,301,149 (note 11). The proportionate voting shares of 5,889 and the common shares of 622,631, had a carrying value of $974,890. The resulting $425,073 difference between the carrying value of the proportionate voting shares and common shares received and their fair value was recorded as reduction to deficit in the consolidated statements of changes in equity in the year ended December 31, 2019. The return of the shares represented all of the shares held by Khrysos as at the date of the transaction.

(15) Loans and borrowings

The following table presents loans and borrowings outstanding:

Description	Maturity date	Interest rate	December 31, 2019	December 31, 2018
Term loans:				
Archytas	November 7, 2020	18.0%	$ 600,000	$ 600,000
Series B convertible debentures:				
Tranche 1	April 12, 2020	8.0%	-	1,100,000
Tranche 2	May 4, 2020	8.0%	-	1,300,000
Tranche 3	May 17, 2020	8.0%	-	365,000
			-	2,765,000
Series C convertible debentures:				
Tranche 1	September 10, 2020	10.0%	-	2,000,000
Tranche 2	September 21, 2020	10.0%	-	785,000
Tranche 3	October 17, 2020	10.0%	-	500,000
Tranche 4	December 27, 2020	10.0%	-	221,000
			-	3,506,000
Convertible debentures	March 22, 2024	10.0%	218,869	-
Sub Receipt convertible debentures	September 11, 2024	10.0%	4,126,148	-
Vehicle loan	July 24, 2024	6.3%	-	49,664
			4,945,017	6,920,664
Less:				
Unamortized discounts, debt issuance costs and prepaid offering costs [1]			(2,366,473)	(2,696,379)
			$ 2,578,544	$ 4,224,285
Non-current			$ 1,978,544	$ 4,216,627
Current			$ 600,000	$ 7,658

Note to the table:

(1) The carrying value of the term loans, Series B and Series C convertible debentures were adjusted using a discount rate of 50% to reflect the prevailing borrowing rates associated with debt acquired by companies with a similar credit risk profile as the Company. The carrying value of the convertible debentures and Sub Receipt convertible debentures issued in 2019 were adjusted using a discount rate of 25% to reflect the prevailing borrowing rates associated with debt acquired by companies with a similar credit risk profile as the Company. The debt discount is accreted over the life of the respective debt instruments using the effective interest method.

The following table below shows the change in carrying value of the Company's loans and borrowings during the years ended December 31, 2019 and 2018:

	Term Loans	Convertible debentures	Vehicle loan	Debt discounts and and prepaid costs	Total
Balance at December 31, 2017	$ 2,500,000	$ -	$ -	$ (1,233,701)	$ 1,266,299
Borrowings	-	6,271,000	52,715	(3,371,523) (2)	2,952,192
Repayments	-	-	(3,051)	-	(3,051)
Conversion of debt	(1,900,000) (1)	-	-	770,867	(1,129,133)
Amortization and accretion of debt issuance and debt discount costs	-	-	-	1,137,978	1,137,978
Balance at December 31, 2018	$ 600,000	$ 6,271,000	$ 49,664	$ (2,696,379)	$ 4,224,285
Borrowings	1,100,000	-	-	(228,183) (3)	871,817
Repayments	(1,100,000)	-	(49,664)	-	(1,149,664)
Issuance of convertible debt	-	218,869	-	(160,499) (3)	58,370
Issuance of Sub Receipt convertible debentures	-	4,472,085	-	(1,958,629) (3)	2,513,456
Conversion of Series B and Series C convertible debentures	-	(6,271,000)	-	1,497,939 (4)	(4,773,061)
Conversion of Sub Receipt convertible debenture	-	(345,937)	-	191,878	(154,059)
Debt issuance costs	-	-	-	(505,764) (3)	(505,764)
Amortization and accretion of debt discounts and debt issuance costs	-	-	-	1,493,164	1,493,164
Balance at December 31, 2019	$ 600,000	$ 4,345,017	$ -	$ (2,366,473)	$ 2,578,544

Notes to the table:

(1) The Company classified $650,000 of the amount converted as redeemable common stock and a liability within the statements of financial position.

(2) Represents debt discounts of $1,713,343 for the discount on loan borrowing proceeds, $1,341,557 allocated to the embedded derivative liabilities, and $316,623 of debt issuance costs ($215,592 paid in cash and $101,031 paid in warrants and common stock).

(3) Represents debt discounts of $2,229,963 for the discount on loan borrowing proceeds and convertible debt issuances, and $623,112 of debt issuance costs netted against the gross proceeds of the Sub Receipt debenture issuance.

(4) Represents the reclassification of unamortized debt discounts related to the conversion of the Series B and Series C convertible debentures.

Term loans

The $600,000 term loan is due on or before the maturity date of November 2020, and bears interest at a rate of 18% per annum, payable monthly.

In January, February, March and April 2019, the Company received additional funding of $1,100,000 in the form of term loans ("2019 term loans") from Archytas with maturity dates ranging from September 2019 to February 2020. The 2019 term loans bore interest at a rate of 18% per annum, payable monthly. In November 2019, the Company repaid Archytas the 2019

term loans in full. During the year ended December 31, 2019, the Company incurred total interest expenses of $250,743 in relation to these term loans.

Convertible debentures

In April and May 2018, the Company issued $2,765,000 of Series B debentures, together with warrants to various investors. The Series B debentures mature after 2 years and bear interest at a rate of 8% per annum payable in cash in equal quarterly installments. The Series B debentures convert into common shares at a conversion price of $0.60 at the holders' option prior to maturity or will automatically convert prior to the completion of a liquidity event, as defined.

In September, October and December 2018, the Company issued $3,506,000 of Series C debentures. The Series C debentures mature after 2 years and bear interest at a rate of 10% per annum payable in arrears in cash at maturity or in the event the Series C debentures are converted, such accrued and unpaid interest shall be payable in shares. The Series C debentures automatically convert into 85% of the subscription receipt issue price of the next qualified securities issued, as defined or at a conversion price of $0.85 if a qualified financing event is not completed prior to a liquidity event, as defined.

In March 2019, the Company amended the conversion feature of the Series C debentures pursuant to which the holders of such debentures will receive upon conversion at a price of $0.94CAD thereof, one common share and one warrant, each warrant having a $1.50CAD ($1.12) exercise price and a five year term, upon conversion. The modification did not have any impact on the classification of the debenture liability.

In April 2019, the Company received majority support of the Series B holders to amend the interest payment terms of the Series B debentures. As a result, all interest payments payable to the Series B debenture holders were deferred starting in October 2018, and all such interest payments are to be converted on the same terms as the principal upon conversion.

In March and April 2019, the Company issued $294,000CAD ($218,869) of convertible debentures to investment advisors and brokers for services rendered in raising debt subscriptions. The convertible debentures mature after 5 years and bear interest at a rate of 10% per annum payable in cash in equal quarterly installments. The convertible debentures convert into common shares and warrants at a conversion price of $1.10CAD ($0.82) at the holders' option prior to maturity or upon a change of control. The warrants to be received have an exercise price of a $1.50CAD ($1.12) and have a five-year term. Upon a change in control, the Company is required to purchase the convertible debentures at a price of 105% of the principal balance plus accrued, unpaid interest. The Company has accounted for the fair value of the convertible debt at issuance of $218,869 as debt issuance costs, within the statements of financial position and is being amortized to interest expense over the term of the Sub Receipt debentures under the effective interest rate method within the consolidated statements of loss and comprehensive loss. The debt discount of $160,499 is being amortized to interest expense over the term of the convertible debentures under the effective interest rate method within the consolidated statements of loss and comprehensive loss. As of September 11, 2019, with the completion of the reverse acquisition, the debentures were re-issued through the legal parent entity and the underlying functional currency change triggered a reclassification of the debenture liability to equity. The fair value of

the debenture liability as at September 11, 2019 immediately prior to the reclassification was $145,989.

In March and April 2019, the Company completed a private placement of 5,882 subscription receipts for aggregate gross proceeds of approximately $5,882,000CAD ($4,500,000) and closing costs of approximately $560,000 CAD ($426,000). The subscription receipts were held in escrow, until satisfaction of the escrow release conditions, at which time each subscription receipt would be convertible into one 10% unsecured convertible debenture of the Company in the principal amount of $1,000CAD ("Sub Receipt debenture"). On September 11, 2019, the escrow conditions were met, and the Company issued $5,882,000CAD ($4,472,085) of Sub Receipt debentures to various investors. The Sub Receipt debentures mature after 5 years and bear interest at a rate of 10% per annum payable in cash in equal quarterly installments. The Sub Receipt debentures convert into common shares and warrants at a conversion price of $1.10CAD ($0.82) at the holders' option prior to maturity or upon a change of control. The warrants to be received have an exercise price of a $1.50CAD ($1.12) and have a five-year term. Upon a change in control the Company is required to purchase the Sub Receipt debentures at a price of 105% of the principal balance plus accrued, unpaid interest.

The principal amount of the debenture was estimated at its fair value of $2,630,804 based on a discount rate of 25%. The Company incurred debt issuance costs, netted against the gross proceeds of the issuance, of $1,398,268CAD ($1,060,821) in connection with the issuance of the Sub Receipt debentures, of which $821,332CAD ($623,112) was allocated to the debenture liability. The debt issuance costs were recorded as a discount on the Sub Receipt debentures carrying value, and are being amortized to interest expense over the life of the sub receipts convertible debentures under the effective interest rate method. The residual value of the debenture of $1,841,281 was allocated to the conversion feature and recorded as a component of equity, net of issuance costs of $437,709 and deferred tax impact of $384,000.

On September 11, 2019, the Series B and Series C convertible debentures outstanding principal balance of $6,271,000 and unpaid accrued interest balance of $536,680 automatically converted into 10,050,378 common shares and 359 proportionate voting shares (note 14) as all conditions of the proposed merger between XSI and Caracara were met. As a result, the carrying value of the liability was transferred to share capital.

In September and November 2019, investors exercised their conversion feature on $400,000CAD ($304,120) and $55,000CAD ($41,817) of the Sub Receipt debentures and received 363,636 and 50,000 common shares, respectively.

Embedded derivative liabilities

The following table presents embedded derivative liabilities:

	December 31,	
	2019	2018
Series C debenture conversion feature	$ -	$ 1,091,514
	$ -	$ 1,091,514

The conversion feature of the Series C debentures was considered an embedded derivative liability as the conversion price is not fixed. The Company performed a Black-Scholes model while probability weighting various expected conversion prices, resulting in a fair value of $1,341,557 determined at issuance, and accounted for the embedded derivative liabilities as a long-term liability within the statements of financial position. At December 31, 2018 the embedded derivative liabilities were re-valued at $1,091,514 with the change in fair value of $250,043 reflected in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2018.

In March 2019, the Company amended the conversion feature of the Series C debentures pursuant to which each holder of such debentures will receive upon conversion at price of $0.94CAD, thereof one share of common shares and a warrant, which has a $1.50CAD ($1.12) exercise price and a five year term, upon conversion. On date of modification, the embedded derivative relating to the Series C debentures was revalued using Black-Scholes valuation model with the following assumptions: risk free rate – 1.77%, expected volatility – 90% and exercise price of $0.94CAD ($0.71). In September 2019, the embedded derivative liabilities associated with the Series C conversion feature were reclassified to shareholders' equity within the consolidated statements of financial position in conjunction with the conversion of the Series C debentures. Prior to the Series C debenture conversion, the Company had reflected changes in the fair market value of the embedded derivative liabilities of $801,314 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019.

The conversion feature of the $294,000CAD ($218,869) issued to investment advisors and brokers in March and April 2019 was considered an embedded derivative liability as the conversion price was denominated in a currency that was different from the functional currency at the time of issuance. On issuance date, the fair value of the embedded derivative liability was determined using the Black-Scholes option valuation model as $135,180 with the following assumptions: risk free rate – 1.48%, expected volatility – 90% and exercise price of $1.10CAD ($0.82). On September 11, 2019, with the completion of the reverse acquisition the debentures were transferred to the legal parent entity and the underlying functional currency change triggered a re-valuation of the embedded derivative liability. The fair value of the embedded derivative liability as at September 11, 2019 of $47,265 was reclassified as a component of equity.

The fair value of the embedded derivative liabilities was determined using the Black-Scholes option pricing model with the following assumptions as of December 31, 2018 and at their respective issuance dates:

	Series C conversion feature	
	December 31, 2018	**At issuance**
Expected dividend yield	-	-
Expected volatility	90.0%	90.0%
Risk-free interest rate	2.5%	2.5% - 2.8%
Expected term	1.7 - 2 years	2 years
Conversion price	$ 0.85	$ 0.51 - 0.85

Redeemable common stock

In July 2018, Archytas and another member exercised the conversion feature of term loans held with the Company and received a combined 6,737,588 shares of Class A common shares. The Company classified $650,000 of the amount converted as redeemable common shares and a liability within the consolidated statements of financial position as this represents amounts subject to rescission due to an ongoing governmental investigation of the Member's finances. An escrow balance of $650,000 is maintained by Archytas to satisfy the obligation.

(16) Warrants

The fair value of warrant derivative liabilities at December 31, 2019 and 2018 was $Nil and $50,031, respectively.

The following table summarizes warrant activity during the years ended December 31, 2019 and 2018:

	Number of warrants		Weighted average exercise price per share
Outstanding at December 31, 2017	-		$ -
Granted	1,140,012	(1)	$ 0.66
Outstanding at December 31, 2018	1,140,012		$ 0.66
Granted	7,326,896	(2)	$ 1.06
Outstanding at December 31, 2019	8,466,908		$ 1.02

Notes to the table:

(1) 933,779 of warrants granted in 2018 were accounted for as a component of shareholders' equity (note 14), within the statements of financial position. The remaining 206,233 of warrants granted in 2018 were accounted for as warrant derivative liabilities, within the statements of financial position, as a result of the exercise price of the warrants being denominated in a currency different from the Company's functional currency.

(2) All of the warrants granted in 2019 were accounted for as a component of shareholders' equity.

Warrant issuances

In connection with the 2018 Series B convertible debentures issuance (note 15) the Company issued 691,250 warrants to the investors to receive additional common shares calculated at 15% of the Series B debenture shares received, with a two-year term and exercise price of $0.80 per share. The Company also issued 149,000 warrants to investment advisors with a two-year term and exercise price of $0.60 per share. The 840,250 of warrants vested immediately upon their issuance. The Company accounted for the warrants as a component of equity and a discount to debt, within the statements of financial position, and is included in the fair value allocation of loan borrowing proceeds in the statements of changes in equity. The debt discount was amortized to interest expense over the term of the Series B debentures under the effective interest rate

method until September 2019 when the Series B debentures were converted into common shares (note 14).

In connection with the 2018 Series C convertible debentures issuance (note 15), the Company issued 35,294 warrants to investment advisors with a two-year term and exercise price of $0.85 per share. The 35,294 warrants vested immediately upon their issuance. The Company accounted for the warrants as a component of equity and a discount to debt, within the statements of financial position, and included the warrants in the fair value allocation of loan borrowing proceeds in the statements of changes in equity. The debt discount was amortized to interest expense over the term of the Series C debentures under the effective interest rate method until September 2019 when the Series C debentures were converted into common shares (note 14).

In November and December 2018 the Company issued 58,235 warrants to third party service providers with a two-year term and exercise prices of $0.85 and exercise price equal to the greater of 85% of the subscription receipt issue price of the next qualified securities issued, as defined, or $0.85. The 58,235 warrants vested immediately upon their issuance. The Company recorded non-cash consulting and marketing expense of $13,413 within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2018.

In October and December 2018, in connection with the Series C Debentures issuance, the Company issued 206,233 warrants to investment advisors with a two-year term and exercise price equal to the greater of 85% of the subscription receipt issue price of the next qualified securities issued, as defined, or $0.85. The Company performed a Black-Scholes model while probability weighting various expected exercise prices, resulting in a fair value of $50,031 at issuance. The Company accounted for the warrants as a liability and a discount to debt as deferred financing costs, within the statements of financial position. The debt discount was being amortized to interest expense over the term of the Series C debentures under the effective interest rate method until September 2019 when the Series C debentures were converted into common shares (note 14). With the closing of the reverse acquisition on September 11, 2019, the underlying functional currency change resulted in these warrants being classified as a component of equity.

In March and April 2019, the Company issued 774,308 warrants to third party investment advisors and brokers for services rendered in raising debt subscriptions with 374,308 of the warrants having a five-year term and a $1.10CAD ($0.82) exercise price. Upon being exercised the holders receive a share of common shares and a warrant, which have a $1.50CAD ($1.12) exercise price and a five-year term. The remaining 400,000 warrants have a two year term and a $1.10CAD ($0.82) exercise price. The Company recorded $232,916 of debt issuance costs within the consolidated statements of financial position. The debt issuance costs are being amortized to interest expense over the term of the Sub Receipt debentures under the effective interest rate method within the consolidated statements of loss and comprehensive loss. The warrants issued for service are accounted for under IFRS 2 and recorded in reserves.

In April and May 2019, the Company issued 536,818 warrants to an investment advisor and third party service provider in connection with services rendered for transaction advisory guidance and consulting services to be rendered during 2019, with terms of two or five years and exercise price of $1.10CAD ($0.82) per share that vested immediately upon their issuance. The Company recorded $290,402 and $14,671 of professional fees for transactional advisory services and

consulting expense, respectively, within the consolidated statements of loss and comprehensive loss in the year ended December 31, 2019. The warrants issued for service are accounted for under IFRS 2 and recorded in reserves.

In July 2019, the Company issued 150,000 warrants to consultants in connection with finance and accounting support services provided to the Company, with terms of two years and exercise price of $1.10CAD ($0.82) per share that vested immediately upon their issuance. The Company recorded $61,321 of contractor costs, within the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019. The warrants issued for service are accounted for under IFRS 2 and recorded in reserves. A director and officer of the Company received a total of 125,000 warrants.

In September 2019, the Company issued 5,452,134 of warrants related to the conversion of the Series C debentures (note 15). The warrant issuance had terms of five years and exercise price of $1.50CAD ($1.12) per share that vested immediately upon their issuance. The warrants had a value of $1,101,800 on the date of issue based on the allocation of the total carrying value of the debenture liability and conversion feature using the Black-Scholes option pricing model.

In September and November 2019, the Company issued 413,636 of warrants related to the conversion of Sub Receipt debentures (note 15). The warrants have a term of five years and exercise price of $1.50CAD ($1.13 - $1.14) per share. The warrants had a value of $88,952 on the date of issue based on the allocation of the total carrying value of the debenture liability and conversion feature using the Black-Scholes option pricing model.

The fair value of the warrants and warrant derivative liabilities was determined using the Black-Scholes option pricing model with the following assumptions during the years ended December 31, 2019 and 2018:

	2019 issuances	**2018 issuances**	
	At issuance	**December 31, 2018**	**At issuance**
Expected dividend yield	-	-	-
Expected volatility	90.0%	90.0%	90.0%
Risk-free interest rate	1.6 - 2.4%	2.5%	2.5 - 2.8%
Expected term	2 - 5 years	1.7 - 2 years	2 years
Conversion price	$ 0.82 - 1.14	$ 0.85	$ 0.51 - 0.85

The following table presents warrants outstanding at December 31, 2019:

Expiration date	Term (years)	Number of warrants outstanding	Number of warrants exercisable	Exercise price US $	Exercise price CAD $
12-Apr-20	2	275,000	275,000	$ 0.80	$ 1.04
4-May-20	2	325,000	325,000	$ 0.80	$ 1.04
17-May-20	2	91,250	91,250	$ 0.80	$ 1.04
4-May-20	2	10,000	10,000	$ 0.60	$ 0.78
17-May-20	2	111,500	111,500	$ 0.60	$ 0.78
17-May-20	2	27,500	27,500	$ 0.60	$ 0.78
17-Oct-20	2	17,647	17,647	$ 0.85	$ 1.11
17-Oct-20	2	17,647	17,647	$ 0.85	$ 1.11
30-Oct-20	2	30,000	30,000	$ 0.85	$ 1.11
30-Oct-20	2	2,118	2,118	$ 0.85	$ 1.11
28-Nov-20	2	31,765	31,765	$ 0.85	$ 1.11
5-Dec-20	2	26,470	26,470	$ 0.85	$ 1.11
31-Dec-20	2	174,115	174,115	$ 0.85	$ 1.11
22-Mar-21	2	400,000	400,000	$ 0.82	$ 1.10
12-Apr-24	5	500,000	500,000	$ 0.82	$ 1.10
15-May-21	2	36,818	36,818	$ 0.82	$ 1.10
17-Jul-21	2	150,000	150,000	$ 0.84	$ 1.10
11-Sep-14	5	374,308	374,308	$ 0.82	$ 1.10
11-Sep-24	5	5,452,134	5,452,134	$ 1.12	$ 1.50
20-Sep-24	5	363,636	363,636	$ 1.13	$ 1.50
7-Nov-24	5	50,000	50,000	$ 1.14	$ 1.50
Total	2 - 5 years	8,466,908	8,466,908	$ 1.02	

The weighted average remaining time to expiry for the outstanding warrants is 3.86 years.

(17) Trade and other payables

The following table presents trade and other payables:

	December 31, 2019	December 31, 2018
Trade payables	$ 119,452	$ 182,155
Credit card payable	300	28,112
	$ 119,752	$ 210,267

(18) Other current liabilities

The following table presents accrued expenses:

	December 31,	
	2019	2018
Accrued interest	$ -	$ 147,059
Accrued professional fees	30,756	7,195
Accrued compensation, benefts and related taxes	9,212	18,988
Accrued insurance	152,295	41,071
Accrued other	9,054	5,105
	$ 201,317	$ 219,418

(19) Income taxes

Provision for income taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2018 – US federal and state statutory rate of 21.0%) were as follows:

	2019 $	2018 $
(Loss) before income taxes	$ (7,329,871)	$ (5,838,670)
Expected income tax recovery based on statutory rate	(1,942,000)	(1,226,000)
Adjustment to expected income tax benefit:		
Stock Based Compensation	170,000	191,000
Expenses not deductible for tax purposes	318,000	675,000
Tax assets acquired in reverse acquisition	(710,000)	-
Change in tax rates	403,000	
Change in unrecorded deferred tax asset		(306,000)
Change in Benefit of tax assets not recognized	1,377,975	666,975
Deferred income tax provision (recovery)	$ (383,025)	$ 975

Deferred income tax

	2019 $	2018 $
Recognized deferred tax assets and liabilities:		
Non-capital loss carry-forwards	$ 383,025	$ 113,100
Other temporary differences	(383,025)	(113,100)
Deferred income tax liability	$ -	$ -

Unrecognized Deferred Tax Assets	2019 $	2018 $
Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:		
Non-capital loss carry-forwards	$ 9,661,000	$ 2,513,000
Other temporary differences	35,000	-
Total	$ 9,696,000	$ 2,513,000

As at December 31, 2019, the Company had Canadian non-capital losses of approximately $1,420,000 CAD ($1,843,000) (2018 - $nil) that expire from 2031 to 2039. As at December 31, 2019, the Company had United States net operating losses of approximately $8,241,000 (2018 - $2,513,000) that can be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

(20) Share-based compensation

In March, April and May 2018, the Company issued 1,098,586 of Class B restricted units to employees, consultants and advisors of the Company. 797,872 units vested ratably on the grant-date anniversary over a four-year period, 217,172 units vested ratably on the grant-date anniversary over a three-year period and 83,542 units vested immediately on the grant-date.

In July 2018 in connection with the Company electing to be classified as a corporation, the Company adopted the 2018 Stock Option Plan (“Option Plan”) to provide for the granting of up to 5,000,000 share-based equity incentive compensation awards such as stock options and restricted stock awards to employees, contractors, and advisors, as determined by the Company’s board of directors. The Company cancelled all of the 1,098,586 restricted units and issued 419,936 of stock options, and 678,650 of fully vested series B common stock to the same individuals (note 14). The Company accounted for this as a modification. The Company also subsequently granted 3,297,957 options in July 2018 to employees, consultants and advisors of the Company. All the July 2018 stock option grants have an exercise price of $0.60 and vest over three years.

In September 2019, in connection with the reverse acquisition (note 4), the Company established the Omnibus Incentive Plan ("Incentive Plan") which replaced and governs all options under the Company's 2018 Stock Option Plan. The Incentive Plan provides for the granting of up 15% of outstanding common shares and is not to exceed a maximum of 10,000,000 share-based equity incentive compensation awards such as stock options and restricted stock awards to directors, officers, employees, contractors, and advisors, as determined by the Company's board of directors. In November 2019, the Company granted 1,955,000 of options to employees, directors and consultants of the Company. All the November 2019 stock option grants have an exercise price of $0.34CAD ($0.26) and vest over two years. A total of 1,100,000 stock options were granted to directors and officers.

The Company cancelled 2,512,674 and 150,000 of issued options in the years ended December 31, 2019 and 2018, respectively, as a result of the resignation of certain employees of the Company and termination of the mutual exclusivity arrangement with Khrysos (note 11). Additionally, in January 2019, the Company accelerated the vesting of 857,523 options for a former officer of the Company to allow for immediate vesting.

The per-share weighted average fair value of stock options and 2018 restricted units (profits interest) granted was estimated at $0.07 and $0.45 on the date of grant for the years ended December 31, 2019 and 2018, respectively, using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,	
	2019	**2018**
Expected dividend yield	-	-
Expected volatility	90.0%	90.0%
Risk-free interest rate	1.6%	2.8%
Expected term	3.25 years	6 years

The expected volatility was calculated based on a historical volatility analysis of public company peers that were similar to the Company for a term equivalent to the expected life of the option. The expected term was determined based on management's expectation**.** The risk-free interest rate is based on the U.S. Treasury yield in effect at the date of grant.

The following table summarizes stock option activity under the Option Plan during the years ended December 31, 2019 and 2018:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at December 31, 2017	-		
Granted	3,717,893	$ 0.60	
Cancelled / forfeited	(150,000)	0.60	
Outstanding at December 31, 2018	3,567,893	$ 0.60	9.5
Granted	1,955,000	0.26	
Cancelled / forfeited	(2,512,764)	0.60	
Outstanding at December 31, 2019	3,010,129	$ 0.38	6.2
Exercisable and vested at December 31, 2019	1,003,376	$ 0.38	6.2

As of December 31, 2019 there was approximately $213,000 (2018 - $875,000) of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 1.8 years (2018 – 2.5 years).

The Company recorded compensation expense for stock options and restricted stock awards, including non-cash compensation related to the cancelled 2018 restricted units of $641,191 and $874,772 for the years ended December 31, 2019 and 2018, respectively.

The following table summarizes the stock options outstanding as at December 31, 2019:

Expiry Date	Exercise Price $	Exercise Price CAD $	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested
July 19, 2028	$ 0.60	$ 0.78	8.55	1,055,129	351,710
November 25, 2024	$ 0.26	$ 0.34	4.90	1,955,000	651,667
	$ 0.38	$ 0.49	6.18	3,010,129	1,003,376

(21) Related party transactions

The following presents balances and transactions between the Company and other related parties as of December 31, 2019 and 2018, and for the years ended December 31, 2019 and 2018, respectively.

Key management personnel

Key employees include executive management with the authority and responsibility for planning, directing and controlling the activities of the Company. The following table presents compensation and benefit expenses of key employees:

	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

See also notes 14, 16 and 20.

Related party other receivable

The following table presents related party receivables:

	December 31,	
	2019	2018
Other receivable (note 7) - Khrysos	$ -	$ 30,000

Related party transactions and amounts due to related parties

The following table presents expenses incurred on behalf of the Company and assets purchased from related parties:

	Archytas	Khrysos	Total
Amounts due to related parties at January 1, 2018	$ 104,035	$ 92,927	$ 196,962
Interest expense	137,231	-	137,231
Operating expenses	22,915	35,575	58,490
Inventory purchases	-	291,667	291,667
Prepaid equipment purchases	-	3,259,964	3,259,964
Less payments to related parties	(251,181)	(3,574,479)	(3,825,660)
Amounts due to related parties at December 31, 2018	$ 13,000	$ 105,654	$ 118,654
Amounts due to related parties at January 1, 2019	$ 13,000	$ 105,654	$ 118,654
Interest expense	262,457	-	262,457
Management fee	346,401	-	346,401
Operating expenses	-	90,225	90,225
Prepaid equipment purchases	-	283,228	283,228
Conversion of accrued interest to comon stock	(15,713)	-	(15,713)
Less payments to related parties	(606,145)	(479,107)	(1,085,252)
Amounts due to related parties at December 31, 2019	-	$ -	$ -

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 these consolidated financial statements.

Related party loans and borrowings

The following table presents the Company's loans and borrowings, and related interest, from related parties:

	December 31, 2019	December 31, 2018
Archytas:		
Term loans (note 15)	$ 600,000	$ 600,000
Series B debentures (note 15)	-	200,000
Accrued interest	-	13,000
	$ 600,000	$ 813,000

The carrying value of the above loans and borrowings were reduced by discounts at December 31, 2019 and 2018, respectively (see note 15). During 2019 the Company received additional funding of $1,100,000 in the form of the 2019 term loans from Archytas with maturity dates ranging from September 2019 to February 2020 (note 15). In November 2019, the Company repaid Archytas the $1,100,000 2019 term loans.

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 (note 11).

See also notes 12 and 23.

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.

(22) Financial instrument risk exposures

Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company’s risk management processes:

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash, 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. See also note 8.

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
Balance at December 31, 2019	$ 321,069	$ 600,000	$ -	$ 4,345,017

Market risk

Currency risk

The Company has determined its functional currency to be the Canadian dollar 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 no hedging agreements in place with respect to foreign exchange rates. 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 debt have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

(23) Events after the reporting date

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. As the options were taken in lieu of cash, the options were fully-vested on grant and feature a 5-year term and $0.22CAD exercise price.

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.

Sale of equipment

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.