MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THREE MONTHS ENDED MARCH 31, 2020 AND 2019

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of the operations of Xtraction Services Holdings Corp. ("**Xtraction Services**", the "**Company**", "**our**" or "**we**") constitutes management's review of the factors that affected the Company's financial and operating performance for the three months ended March 31, 2020 and 2019. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and the accompanying notes for the three months ended March 31, 2020 and 2019, and the audited financial statements for the twelve months ended December 31, 2019 and 2018 together with the notes thereto. The interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the IASB. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All amounts in the annual financial statements and this discussion are expressed in United States dollars, unless otherwise stated. The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at May 29, 2020 unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Xtraction Service's securities; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

This discussion contains "forward-looking information" and may also contain statements that may constitute "forward-looking statements", collectively "forward-looking information", within the meaning of applicable Canadian securities legislation. Such forward-looking information is not representative of historical facts or information or current condition, but instead represent the beliefs and expectations regarding future events about the business and the industry and markets in which Xtraction Services operates, as well as plans or objectives of management, many of which, by their nature, are inherently uncertain. Generally, such forward-looking information can be identified by the use of terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or may contain statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "will continue", "will occur" or "will be achieved".

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

GOING CONCERN ASSUMPTION

The financial statements have been prepared on a going concern basis, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at March 31, 2020 and December 31, 2019, the Company had working capital of $2,448,341 and $1,802,038, respectively, and an accumulated deficit of $(16,193,720) and $(13,586,621), respectively. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, and to continue to obtain equity investment and borrowings sufficient to meet current and future obligations and/or restructure the existing debt and payables. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company anticipates incurring additional losses until such time it can generate sufficient revenue from its operations to cover its expenses. While the Company has been successful in obtaining equity and debt funding for operating and capital requirements, there can be no assurance that the Company will be able to obtain additional funds on reasonable terms, if at all.

OVERVIEW OF THE COMPANY

Company Background

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

Xtraction Services, Inc. ("XSI") was originally established as a Delaware limited liability company on October 9, 2017. In July 2018, XSI filed with the Secretary of State of Delaware to change its corporate status from a Delaware limited liability company to a Delaware corporation and elected to be classified as a corporation. On July 19, 2018, XSI received a Certificate of Conversion and Certificate of Incorporation from the Secretary of State of Delaware.

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

Description of Business

Xtraction Services is a specialty finance company that provides equipment leasing solutions in the United States to owner/operators of cannabis and hemp companies including cultivators, oil processors, manufacturers, testing laboratories, among others. In addition, the Company provides a full range of consulting services including equipment selection and procurement, through its network of Preferred Vendor partnerships with original equipment manufacturers and equipment distributors. The Company also provides a full range on-site support services, including staff recruitment, process development and optimization.

The Company predominantly generates equipment sales and leases through its employee sales force, who focus on equipment vendors and direct equipment users. Xtraction Services distinguishes itself from traditional equipment leasing companies in that it:

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

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

Recent Developments and Outlook

Revenue Activity

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

In January 2020, the Company entered into a new revenue leasing agreement with Lehua Group LLC, USA ("Lehua"), a multi-state, licensed cannabis processor specializing in THC-infused beverages. Per the terms of the agreement, the lease has a term of 36 months with expected total monthly rentals and fees of approximately $166,000. Additionally, Lehua has the option to repurchase the leased equipment at the end of month 12 for approximately $53,000 and an end of lease term purchase option for approximately $11,000.

In May 2020, the Company announced it had entered into a new revenue leasing agreement with PharmaCann Inc., a vertically-integrated cannabis company operating cultivation, manufacturing, distribution and retail locations in multi-states in the USA. Per the terms of the agreement the lease is upwards of $3,400,000 for the purchase of new equipment and has term of 48 months. The Company anticipates revenues to commence in May 2020.

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.

Servicing Equipment and Prepaid Servicing Equipment Divestitures

In January 2020, the Company sold extraction and ancillary extraction equipment back to the original supplier of the equipment, Khrysos Global Inc. ("Khrysos"), for gross proceeds of $250,000 with recognized losses of $5,928.

Components of Our Results of Operations

Revenue

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

Cost of Sales and Gross Profit

Gross profit is calculated as revenue less cost of sales. Cost of sales represents those costs directly attributable to the generation of our revenue, and primarily includes equipment costs for the purchase and leasing of servicing equipment, personnel costs, including salaries and benefits, supplies, maintenance and repairs. Cost of sales also includes non-cash items such as depreciation and amortization of Company servicing equipment and its intangible asset.

Operating Expenses

Operating expenses consist of administrative, selling and marketing costs. Administrative expenses primarily represent contractor costs, personnel costs, including salaries, benefits, incentive-based non-cash compensation, management fees and other professional service costs, including legal and accounting, to support Company operations. Selling costs primarily represent marketing activities, trade shows, contractor costs and personnel costs, including a portion of salaries, benefits and marketing activities related to customer acquisition.

Other (Income) Expense

Other (income) expense consists of (i) financing interest expense on notes payable and convertible debentures, (ii) non-cash interest expense for debt issuance costs and debt discounts related to the issuance of our convertible debentures, (iii) losses on the sale of servicing equipment and property, plant and equipment, (iv) mark-to-market changes in the fair value of warrant liabilities and embedded derivatives within the convertible debentures ("derivative liabilities") and (v) mark-to-market changes in fair value of changes to the Company's investment in KushCo.

Income Taxes (Recovery)

The Company is subject to income taxes in the jurisdictions in which it operates and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2020 as compared to the Three Months Ended March 31, 2019

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

	Three months ended March 31,	
	2020	**2019**
Revenue	$ 300,045	$ 541,317
Cost of sales	$ 222,282	$ 634,037
Gross profit (loss)	$ 77,763	$ (92,720)
Operating expenses	$ 504,698	$ 1,057,057
Other expense	$ 2,180,164	$ 3,991,989
Income tax expense	$ -	$ 975
Net loss	$ (2,607,099)	$ (5,142,741)
Loss per share - basic and diluted	$ (0.05)	$ (0.16)
Weighted average shares outstanding - basic and diluted (post-split)	49,504,080	32,501,238

	March 31, 2020	**December 31, 2019**
Total assets	$ 5,027,707	$ 4,474,606
Total liabilities	$ 3,593,253	$ 3,549,613

Revenue

Revenues for the three months ended March 31, 2020 were $300,045 compared with $541,317 for the three months ended March 31, 2019. The decrease of $241,272 for the three months ended March 31, 2020 as compared to the same period in 2019 was directly attributable to the recognition of revenue in 2019 from an equipment sale to a single customer that was fully paid for in October 2018, but delivered and installed throughout 2019. The above decrease is partially offset by approximately a $288,000 increase in revenue recognized through financing and operating leases entered into in 2019 and 2020.

Cost of Sales and Gross Loss

Cost of sales for the three months ended March 31, 2020 were $222,282 compared with $634,037 for the three months ended March 31, 2019. The decrease of $411,755 for the three months ended March 31, 2020 as compared to the same period in 2019 was primarily attributable to cost of equipment purchases made in 2019 related to the direct sale of equipment to a single customer as discussed above. To a lesser degree the decrease is attributable to a reduction in compensation and related expenses for personnel providing services to customers. The above decreases are partially offset by increased equipment costs associated with a financing lease entered into in January of 2020.

Gross profit (loss) for the three months ended March 31, 2020 was a profit of $77,263 compared to a loss of $(92,720) for the three months ended March 31, 2019. The Company anticipates further gross margin improvement due to the curtailment of excess equipment sales and new leasing activity.

Operating Expenses

Operating expenses for the three months ended March 31, 2020 were $504,968 compared with $1,057,057 for the three months ended March 31, 2019. The following table presents the components of operating expenses:

	Three months ended March 31,	
	2020	**2019**
Administrative expenses:		
Personnel and contractor costs	$ 32,358	$ 110,306
Professional fees	147,166	171,015
Incentive compensation	50,668	445,324
Occupancy expenses	8,171	24,955
Management fee	86,000	88,400
Other	134,244	139,924
Total administrative expenses	458,607	979,924
Selling and marketing expenses:		
Personnel and contractor costs	$ 37,411	$ 16,151
Marketing and trade shows	7,241	10,108
Professional fees	-	50,333
Other	1,439	541
Total selling and marketing expenses	46,091	77,133
	$ 504,698	$ 1,057,057

Administrative expenses for the three months ended March 31, 2020 were $458,607 compared with $979,924 for the three months ended March 31, 2019. The decrease of $521,317 in the three months ended March 31, 2020, as compared to the same period in 2019 was primarily attributable to a reduction in non-cash incentive compensation related to increased expense recognized in 2019 associated with cancelled stock options that accelerated vested. To a lesser degree the decrease is attributable to reduction in the use of third-party contactors and employees from 2019 to 2020.

Selling and marketing expenses for the three months ended March 31, 2020 were $46,091 compared with $77,133 for the three months ended March 31, 2019. The decrease of $31,042 in the three months ended March 31, 2020, as compared to the same period in 2019 was primarily attributable to a reduction in professional fees related to marketing consulting.

Other Expense

Other expenses for the three months ended March 31, 2020 were $2,180,164 compared with $3,991,989 for the three months ended March 31, 2019. The decrease in other expense of $1,811,825 for the three months ended March 31, 2020 as compared to the same period in 2019 was primarily attributable to (i) $1,319,064 decrease in the non-cash changes in fair value, resulting from 2020 fair value changes of $1,987,312 related to our unrealized loss in the KushCo compared to the 2019 fair value changes of

$3,306,376 related to derivative liabilities, (ii) $382,909 of reduced non-cash accretion expense associated with debt issuance costs, and debt discounts on our term loans and convertible debt and (iii) $97,218 of reduced interest expense on our term loans and convertible debt.

Income Tax (Recovery) Expense

Income taxes for the three months ended March 31, 2020 were $Nil compared with income tax of $975 for the three months ended March 31, 2019.

Loss

The Company's loss for the three months ended March 31, 2020 was $(2,607,099) compared to a loss of $(5,142,741) for the three months ended March 31, 2019. The Company anticipates further improvement in losses throughout 2020 due to the curtailment of excess equipment sales, significant cost reduction initiatives, the absence of costs related to the reverse acquisition and new leasing activity.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company's liquidity needs are primarily to finance growth initiatives including equipment acquisition, leasing activities, debt service and for general corporate purposes. The Company's primary source of liquidity to date has been funds generated by private financing via convertible debentures and term loans. The Company has been generating revenue from operations since the third quarter of 2018. The Company's ability to fund its operations, make planned capital expenditures, satisfy scheduled debt payments and repay or refinance indebtedness depends on the Company's future operating performance and cash flows. These cash flows are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control (see "*Financial Instruments and Financial Risk Management*").

As of March 31, 2020, the Company had $2,191,354 of cash, working capital (current assets minus current liabilities) of $2,448,341 and an accumulated deficit of $(16,193,720) compared with $2,487,293 of cash, working capital of $1,802,038 and an accumulated deficit of $(13,586,621) as of December 31, 2019. The increase in working capital by $646,303 was primarily attributable to the shares received in KushCo recognized as an investment partially offset by the funding of operations and purchase of servicing equipment. The increase in accumulated deficit $(2,607,099) was primarily attributable to the funding of operations and non-cash charges related to the unrealized loss on the fair value change of the KushCo investment, amortization of debt issuance costs and discounts and non-cash compensation.

The Company anticipates incurring additional losses until such time that it can generate sufficient revenue from its operations to cover its expenses. Historically, the Company has been successful in obtaining enough funding for operating and capital requirements.

Cash Flows

The following table sets forth the primary sources and uses of cash for the three months ended March 31, 2020 and 2019:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Cash flows (used in) operating activities	$ (296,140)	$ (699,997)
Cash flows provided by investing activities	$ 14,456	$ 6,102
Cash flows provided by financing activities	$ -	$ 850,336

Cash Flow from Operating Activities

Net cash used in operating activities for the three months ended March 31, 2020 was $(296,140) primarily due to a loss for the period of $(2,607,099) and the addition of servicing equipment for finance leases $(120,986). The above decreases were offset in part by (i) non-cash adjustments of $2,110,804 including unrealized loss on mark-to-market fair value change of investments, accretion of debt issuance costs and discounts, depreciation and non-cash incentive compensation, and (ii) proceeds received of $243,171 from financing receivables.

Net cash used in operating activities for the three months ended March 31, 2019 was $(699,997) primarily due to a loss for the period of $(5,142,741), offset in part by non-cash adjustments of $4,217,795 including a change in fair value of the embedded derivative liabilities, accretion of debt issuance costs and discounts, depreciation, amortization, non-cash compensation and incentive compensation, offset by a gain on sale of servicing equipment.

Cash Flow from Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2020 of $14,456 was attributable to $260,999 of proceeds received from the sale of servicing equipment, offset in part by $(246,543) for the purchase of servicing equipment.

Net cash provided by investing activities for the three months ended March 31, 2019 of $6,102 was attributable to proceeds from the sale of property, plant and equipment, offset in part by the purchase of servicing equipment.

Cash Flow from Financing Activities

No cash was provided by or used in financing activities for the three months ended March 31, 2020.

Net cash provided by financing activities for the three months ended March 31, 2019 was $850,336 and consisted primarily of proceeds from loans and borrowings, specifically term loans of $900,000, offset in part by repayments of loans and borrowings.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company may be subject to contractual obligations to make future payments in relation to contracts or other financial commitments. As at March 31, 2020, the Company is not aware of any legal or financial contractual obligations or financial commitments outside of its loans and borrowings and related party management services agreement.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company has no material undisclosed off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources that are material to investors.

RELATED PARTY TRANSACTIONS

Related parties include officers and employees of the Company that are investors, debt holders and the Company's primary provider of servicing equipment.

Key Management and Personnel

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

	Three months ended March 31, 2020	Three months ended March 31, 2019
Salaries, contractor costs, management fees and benefits	$ 128,481	$ 119,714
Incentive compensation	33,274	349,136
	$ 161,755	$ 468,850

Related Party Loans and Borrowings

As of March 31, 2020 and December 31, 2019, the Company had loans and borrowings, and related interest due to related parties of $618,000 and $600,000, respectively. The following table presents the Company's loans and borrowings, and related interest, from related parties:

	March 31, 2020	December 31, 2019
Archytas:		
Term loans	$ 600,000	$ 600,000
Accrued interest	18,000	-
	$ 618,000	$ 600,000

Related Party Transactions and Amounts Due to Related Parties

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

Amounts due to related parties at January 1, 2019	$	118,654
Interest expense		60,443
Management fee		88,400
Operating expenses		11,936
Prepaid equipment purchases		258,845
Amounts due to related parties at March 31, 2019	$	538,278
Amounts due to related parties at January 1, 2020	$	-
Interest expense		27,000
Management fee		86,000
Less payments to related parties		(66,333)
Amounts due to related parties at March 31, 2020	$	46,667

Related Party Management Services Agreement

Effective January 2019, the Company entered into a management services agreement with Archytas at a monthly rate of $28,667 and a term of five years, with one-year automatic renewals, whereby Archytas will provide day-to-day executive management and support to the Company. Archytas is a shareholder of the Company, having been involved in the initial formation of XSI. In addition, two officers and directors of the Company are partners of Archytas. The agreement cannot be terminated until Archytas holds less than 5% of the fully diluted capital stock of the Company. As at March 31, 2020, Archytas held 46.57% of the proportionate voting shares of the Company.

Related Party Sales

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

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New standards adopted

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)

In October 2018, IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended 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 interpretation is effective for annual periods beginning January 1, 2020. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standards for IAS 1 and IAS 8.

IFRS 16, Business Combinations

In October 2018, IFRS 3 – Business Combinations (“IFRS 3”) was amended 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 interpretation is effective for annual periods beginning January 1, 2020. The Company has concluded there was no impact on its financial statements and related disclosures upon the adoption of the amended standard for IFRS 3.

New standards and interpretations to be adopted in future periods

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company’s financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the interim condensed 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 condensed consolidated statements of loss and comprehensive loss. The fair value of the derivative liabilities are subject to measurement uncertainty due to the assumptions made for the inputs in the Black-Scholes option valuation.

Compound Financial Instruments

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

Functional Currency Determination

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

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

Determination of Discount Rates

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

Determination of Financing Lease or Operating Lease

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

Expected Credit Losses

<u>Allowance for credit losses</u>

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

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

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

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

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

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

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

Definition of a Business

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

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company categorizes its financial assets and liabilities measured and reported at fair value in the financial statements on a recurring basis based upon the level of judgments associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs used to determine the fair value of financial assets and liabilities, are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

Each major category of financial assets and liabilities measured at fair value on a recurring basis is categorized based upon the lowest level of significant input to the valuations. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Financial Risk Management

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

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash, trade and other receivables and financing receivables. The Company does not have significant credit risk with respect to customers. All cash is placed with recognized U.S. financial institutions. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. The Company recognized a loss allowance of $40,000 for expected credit losses on trade receivables as of March 31, 2020. No loss allowances were recognized on financing receivables as of March 31, 2020.

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 March 31, 2020, the Company had current assets of $4,011,454 and current liabilities of $1,563,133. All current liabilities are due within one year.

At March 31, 2020, the Company also has undiscounted loans and borrowings of $4,926,686 of which $600,000 are due in 2020 and $4,326,686 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	$ 104,717	$ -	$ -	$ -
Accrued expenses	134,229	-	-	-
Loans and borrowings	-	600,000	-	4,326,686
	$ 238,946	$ 600,000	$ -	$ 4,326,686
Commitments	-	-	-	-
Balance at March 31, 2020	$ -	$ -	$ -	$ -

Market Risk

Currency Risk

The Company has determined its functional currency to be the Canadian and U.S. dollar. The operating results and financial position of the Company are reported in U.S. dollars. The Company has minimal financial transactions denominated in currencies other than the Canadian and U.S. dollar.

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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

- pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the consolidated financial statements in accordance with IFRS and that the Company's receipts and disbursements are made only in accordance with authorizations of management and the Company's Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

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

Limitation of Controls and Procedures

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

Accounting Responsibilities, Procedures and Policies

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

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

SUBSEQUENT EVENTS

Acquisition

In January 2020, the Company entered into an agreement to acquire all of the outstanding shares of CA Licensed Lenders LLC for its California lenders license in exchange for 450,761 common shares of the Company. The transaction is expected to close in the second quarter of the 2020 calendar year.

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.

In May 2020, the Company entered into a promissory note with a third-party lender to borrow $55,762 under the U.S. government's Paycheck Protection Program ("PPP") via the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. Under the provisions of the PPP, loan proceeds are expected to be used for payroll costs, rent and utilities. The promissory note is unsecured, with a maturity date of April 29, 2022, accrues interest at 1.00% and requires eighteen fixed scheduled monthly amortization payments commencing in November 2020. PPP borrowers may apply for loan forgiveness in an amount equal to the sum of payroll costs, rent and utilities incurred during the 8 week period following the receipt of loan proceeds, whereby not more 25% of the amount forgiven can be attributable to non-payroll costs.

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.

New lease

In May 2020, the Company announced it had entered into a new revenue leasing agreement with PharmaCann Inc., a vertically-integrated cannabis company operating cultivation, manufacturing, distribution and retail locations in multi-states in the USA.

Share issuances

In May 2020, the Company announced the issuance of 350,000 common shares in exchange for marketing and advisory services , and 600,000 common shares in connection with the Company's previously announced lease agreement with PharmaCann Inc.