

POND TECHNOLOGIES HOLDINGS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pond Technologies Holding Inc.

Opinion

We have audited the consolidated financial statements of Pond Technologies Holding Inc., (the Company), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years 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 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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, and 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$(9,092,118) during the year ended December 31, 2019 and, as of that date, the Company's current liabilities exceeded its current assets by \$(721,869). As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 and will 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 identified above 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 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 International Financial Reporting Standards, 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 to 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 the 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 judgment and maintain professional skepticism throughout the audit. We also:

- o 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 risk 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.
- o 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.
- o Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- o 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, 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.
- o 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.
- o Obtain sufficient appropriate audit evidence regarding the financial performance of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 on the audit resulting in this independent auditor's report is Danny Tomassini.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
June 2, 2020
Toronto, Ontario

Pond Technologies Holdings Inc.

Consolidated Statements of Financial Position

As at December 31, 2019

Canadian dollars

	Note	2019	2018
Assets			
Current Assets			
Cash and cash equivalents		\$ 1,035,332	\$ 2,823,743
Contract receivable	18	-	1,000,137
Receivables	6	441,923	135,246
Inventories	7	200,828	-
Prepaid expenses and other assets		55,438	307,919
		1,733,521	4,267,045
Non-Current Assets			
Intangibles	8	2,271,360	2,342,167
Goodwill	5, 9	100,331	-
Capital assets	10	3,885,128	4,255,601
Contract receivable	18	704,438	-
Deferred income taxes	17	821,899	-
Right-of-use assets	15	264,421	-
Total assets		\$ 9,781,098	\$ 10,864,813
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12	\$ 1,679,613	\$ 1,080,630
Current portion of loans payable	13	264,007	3,697,928
Current portion of lease liabilities	15	74,623	-
Deferred contract revenue	18	437,147	532,636
		2,455,390	5,311,194
Non-Current Liabilities			
Long-term portion of loans payable	13	2,843,247	170,472
Convertible debenture	14	1,615,483	-
Long-term portion of lease liabilities	15	203,043	-
Decommissioning liabilities	16	98,775	96,015
Total liabilities		\$ 7,215,938	\$ 5,577,681
Shareholders' Equity			
Share capital	17	\$ 28,588,102	\$ 23,676,390
Contributed surplus	17	7,696,939	4,593,415
Accumulated deficit		(33,719,881)	(22,982,673)
Shareholders' equity		2,565,160	5,287,132
Total liabilities and shareholders' equity		\$ 9,781,098	\$ 10,864,813

Description of business and going concern (Note 1)

Commitments and contingencies (Note 26)

Subsequent events (Note 27)

Approved on behalf of the Board:

"Gerry Quinn"

Director

"Grant Smith"

Director

See accompanying notes to the consolidated financial statements.

Pond Technologies Holdings Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the year ended December 31, 2019

(in Canadian dollars except per share and weighed average figures)

	Note	2019	2018
Revenue			
Revenue	18,23	\$ 6,135,676	\$ 3,540,074
Expenses			
Direct costs and expenses	23	\$ 4,967,228	\$ 2,741,806
Operating expenses	19	2,644,081	1,905,457
General and administrative expense	19	2,233,648	2,213,400
Amortization and depletion	8,10	903,670	863,030
Impairment of goodwill	9	2,490,000	-
Impairment of capital assets	10	812,000	-
Impairment of contract receivable	18	674,035	-
Stock-based compensation	17	329,092	485,122
		15,053,754	8,208,815
Operating loss		\$ (8,918,078)	\$ (4,668,741)
Other income / (expense)			
Recovery of environmental cost	11	\$ 300,000	-
Interest income		9,910	\$ 49,029
Financial expenses	20	(482,383)	(591,705)
Loss on disposal of capital asset	10	(1,567)	(162,093)
Net loss and comprehensive loss		\$ (9,092,118)	\$ (5,373,510)
Weighted average number of shares outstanding		21,442,933	18,931,382
Basic and diluted loss per common share		\$ (0.42)	\$ (0.28)

See accompanying notes to the consolidated financial statements.

Pond Technologies Holdings Inc.

Consolidated Statement of Changes in Shareholders' Equity (Deficiency)

For the year ended December 31, 2019

(in Canadian dollars)

	Number of Shares	Number of Warrants	Share Capital		Reserve for Exchangeable Shares	Total Share Capital	Contributed Surplus	Accumulated Deficit	Total
			Issued Share Capital						
Balance - January 1, 2018	12,731,245	2,599,140	\$ 13,678,295	\$ -	\$ -	\$ 13,678,295	\$ 1,867,992	\$ (17,609,163)	(2,062,876)
Shares issued in connection with business combination transactions (Note 5)	4,041,313	-	6,223,622	-	-	6,223,622	-	-	6,223,622
Shares issued concurrent financing (Note 17)	2,641,873	-	4,068,484	-	-	4,068,484	-	-	4,068,484
Warrants issued	-	2,836,554	-	-	-	-	2,463,429	-	2,463,429
Share issuance costs	-	-	(689,647)	-	-	(689,647)	(153,266)	-	(842,913)
Shares issued to purchase distribution rights	516,128	-	320,000	-	-	320,000	-	-	320,000
Shares issued from conversion of Agent Warrants	2,406	-	5,774	-	-	5,774	-	-	5,774
Warrants and Agent Warrants expired or exercised	-	(419,140)	69,862	-	-	69,862	(69,862)	-	-
Grant of deferred share unit (Note 17)	-	-	-	-	-	-	132,917	-	132,917
Stock-based compensation expense	-	-	-	-	-	-	352,205	-	352,205
Net loss and comprehensive loss for period	-	-	-	-	-	-	-	(5,373,510)	(5,373,510)
Balance - December 31, 2018	19,932,965	5,016,554	\$ 23,676,390	\$ -	\$ -	\$ 23,676,390	\$ 4,593,415	\$ (22,982,673)	\$ 5,287,132
Acquisition of Regenurex Health Corporation (Note 5,17)	-	-	-	3,750,000	-	3,750,000	-	-	3,750,000
Shares issued (Note 17)	2,742,504	-	909,666	-	-	909,666	-	-	909,666
Warrants and Agent Warrants issued (Note 17)	-	2,793,851	-	-	-	-	1,166,729	-	1,166,729
Issuance costs	-	-	(53,046)	-	-	(53,046)	(54,514)	-	(107,560)
Extension of warrants (Note 17)	-	-	-	-	-	-	1,645,090	(1,645,090)	-
Warrants and Agent Warrants expired	-	(155,200)	305,092	-	-	305,092	(305,092)	-	-
Grant of deferred share units (Note 17)	-	-	-	-	-	-	196,750	-	196,750
Stock-based compensation expense	-	-	-	-	-	-	132,342	-	132,342
Convertible debenture option value, net of costs (Note 14)	-	-	-	-	-	-	322,219	-	322,219
Net loss for the period	-	-	-	-	-	-	-	(9,092,118)	(9,092,118)
Balance - December 31, 2019	22,675,469	7,655,205	\$ 24,838,102	\$ 3,750,000	\$ -	\$ 28,588,102	\$ 7,696,939	\$ (33,719,881)	\$ 2,565,160

See accompanying notes to the consolidated financial statements

Pond Technologies Holdings Inc.

Consolidated Statements of Cash Flows

For the year ended December 31, 2019

(in Canadian dollars)

	Note	2019	2018
Operating Activities			
Cash receipts from customers		\$ 5,842,342	\$ 4,950,672
Contract receivable, net	18	(378,371)	(1,000,172)
Cash paid to suppliers and employees		(9,653,434)	(7,872,625)
Interest paid		(347,341)	(361,705)
Interest received		9,910	47,217
Recovery of environmental cost		300,000	-
Cash flows used in operating activities		(4,226,894)	(4,236,613)
Investing Activities			
Cash arising from business acquisition	5	61,131	2,129,787
Patent costs incurred	8	(132,348)	(8,495)
Purchase of capital assets, net of disposal	10	(42,348)	(115,301)
Purchase of distribution rights	8	-	(320,000)
Cash provided by (used in) investing activities		(113,565)	1,685,991
Financing Activities			
Proceeds from issuance of units, net of issuance costs	17	1,968,834	5,497,582
Proceeds from issuance of convertible debenture, net of costs	14	1,920,000	-
Payment of lease liabilities	15	(69,859)	-
Repayments of loans payable		(1,266,927)	(1,405,100)
Cash provided by (used in) financing activities		2,552,048	4,092,482
Net change in cash		(1,788,411)	1,541,860
Cash beginning of year		2,823,743	1,281,883
Cash, end of year		\$ 1,035,332	\$ 2,823,743

See accompanying notes to the consolidated financial statements.

Pond Technologies Holdings Inc.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019

1. REPORTING ENTITY AND GOING CONCERN

Pond Technologies Holdings Inc., formerly, Ironhorse Oil & Gas Inc., (the "Company" or "Pond") is incorporated under the *Business Corporations Act* of Alberta. Effective January 30, 2018 the Company completed a reverse take-over and change of business transaction with Pond Technologies Inc. by way of a three-cornered amalgamation, that resulted in, amongst other things, the Company changing its name from Ironhorse Oil & Gas Inc. ("Ironhorse") to Pond Technologies Holdings Inc. (Note 5). Pond Technologies Inc. was the effective acquirer of Ironhorse.

The Company's primary business is to pursue microalgal biomass cultivation using available sources of carbon dioxide ("CO₂"), including CO₂ rich emission sources from industrial plants and the licensing of its technology. The resultant algae can be used in the production of nutraceuticals, commonly known as superfoods, aquaculture and animal feeds, and as feedstock in the production of biofoams and algae based biomaterials. The Company has formed a nutraceutical business segment and is actively pursuing opportunities in the nutraceutical and, superfood marketplace. The Company also holds an oil and conventional natural gas property.

As of February 6, 2018, the Company's shares began trading on the TSX Venture Exchange under the new trading symbol "POND". The Company's principal place of business is located at Unit 8, 250 Shields Court, Markham, Ontario.

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities as they come due in the normal course of business for the foreseeable future.

The Company is in the commercialization stage, has not yet realized profitable operations and has relied on non-operational sources of financing to fund operations.

For the year ended December 31, 2019, the Company recorded a net loss of \$9,092,118 (2018 – \$5,373,510) and has a working capital deficiency of \$721,869 (2018 – \$1,044,149) at that date. The Company's ability to continue as a going concern is dependent on successfully executing its business plan, which includes the raising of additional funds and realization of profitable operations. The Company will continue to seek additional forms of debt or equity financing, but it cannot provide assurance that it will be successful in doing so. These circumstances in addition to the uncertainties presented by the COVID-19 pandemic lend significant doubt and material uncertainty as to the ability of the Company to meet its obligations as they come due and, accordingly, the ability to continue as a going concern.

These consolidated financial statements do not reflect the adjustments to the carrying amounts of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Company's management prepared these consolidated financial statements in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and interpretations by the IFRS Interpretation Committees applicable to the preparation of financial statements. The Board of Directors approved these financial statements on June 2, 2020.

(b) Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis.

2. BASIS OF PREPARATION (Continued)

(c) Foreign currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity subsidiaries ('the functional currency').

The consolidated financial statements are presented in Canadian Dollars, which is the Company's functional and presentation currency.

Transactions denominated in foreign currency are recognized at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

(d) Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (the "Group"). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the subsidiaries commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group, which is considered to have three operating and reportable segments. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

The Company's wholly-owned subsidiaries are Pond Technologies Inc., Pond Naturals Inc and Paige Growth Technologies Inc.

(e) Use of significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments estimates and assumptions based on currently available information that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the statements of financial position and the reported amounts of income and expenses during the reporting period. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions and judgments are reviewed on an ongoing basis. Significant estimates, judgments and assumptions made by management in the preparation of these consolidated financial statements are outlined below:

Significant judgments in applying accounting policies

(i) Capital assets and intangibles

Management uses judgment to determine whether its process patents, distribution rights, capital equipment and oil and conventional natural gas assets meet the asset recognition criteria and are eligible to be capitalized on the statement of financial position, as well as assessments of useful lives and impairment indicators. In testing for impairment, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination. Furthermore, on a quarterly basis, judgment has been used in determining whether there has been an indication of impairment, which would require the completion of a quarterly impairment test, in addition to the annual goodwill impairment test requirement.

2. BASIS OF PREPARATION (Continued)

Significant judgments in applying accounting policies (Continued)

(ii) Business combination

The amount of goodwill initially recognized as a result of a business combination is dependent on the allocation of the consideration transferred to the fair value of the identifiable assets acquired and the liabilities assumed. The Company applies judgment in identification of identifiable intangible assets. The Company uses external parties with the requisite expertise to determine the acquisition-date fair values of certain identifiable assets acquired.

The fair value of assets is determined by discounting estimated future net cash flows generated by the assets, where no active market for the assets exists. The use of different discount rates as well as assumptions for the expectation of future cash flows would change the valuation of the asset.

(iii) Valuation of oil and conventional natural gas assets

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of undeveloped lands and other relevant assumptions.

(iv) Joint operations

The Company is party to joint interest, operating and other agreements in conjunction with its oil and conventional natural gas activities. The revenues and expenses allocated between partners are governed by the terms of these agreements and are subject to interpretation and audit by the appropriate parties.

(v) Revenue Recognition

The revenues for technology services are evaluated on a percentage of completion of customer contracts. Management's judgment for technology services is applied regarding the evaluation of multiple obligations within these arrangements to assess whether deliverables should be recognized as separate performance obligations for revenue recognition purposes and the percentage completed.

(vi) Revenue recognition in distribution arrangements

Determining whether the Company is acting as a principal or as an agent requires judgment and consideration of all relevant facts and circumstances. When deciding the most appropriate basis for presenting the revenue or related costs, both the legal form and substance of the agreement between the Company and its business partners are reviewed to determine each party's respective role in the transaction. Such judgments impact the amount of reported revenue and direct costs but do not impact reported assets, liabilities or net cash flows from operating activities. The Company has determined to be a Principal in these arrangements with its current business partners.

(vii) Deferred tax assets

The recognition of deferred tax assets, particularly in respect of tax losses and tax credits, is based upon whether it is probable that there will be sufficient and suitable taxable profits in the relevant legal entity against which to utilize the assets in the future. Management therefore exercises judgment in assessing the future financial performance of the particular entity in which the deferred tax asset is to be recognized.

2. BASIS OF PREPARATION (Continued)

Significant judgments in applying accounting policies (Continued)

Key sources of estimation uncertainty

The following are the key estimates and related assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts.

Stock-based compensation and warrants

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used. In calculating the value of the warrants, the Company includes key estimates such as the volatility of the Company's stock price, the value of the common share, and the risk-free interest rate.

Contract receivable

The valuation of contract receivable including the determination of the amount of expected credit losses that is updated at each reporting date to reflect changes in credit risk and recoverability since initial recognition is a significant estimate.

Impairment of goodwill and capital assets

The Company's estimate of a CGU's or group of CGUs' recoverable amount is based on value in use ("VIU") and involves estimating future cash flows before taxes. Future cash flows are estimated based on multi-year extrapolation of the most recent historical actual results or budgets and a terminal value calculated by discounting the final year in perpetuity. The future cash flow estimates are then discounted to their present value using an appropriate discount rate that incorporates a risk premium specific to each business.

Oil and conventional natural gas assets and liabilities

(i) Reserves

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's oil and conventional natural gas properties and equipment, the calculation of depletion and depreciation, and the provision for decommissioning liabilities. The reserve assessment was completed by an external third party engineering firm for the year ended December 31, 2019.

(ii) Decommissioning liabilities

The calculation of decommissioning liabilities and related accretion expense requires estimates of future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. In addition, the calculation requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition and costs

(i) Technology services contract revenue and costs

On January 1, 2017, the Company adopted the new accounting standard IFRS 15 Revenue from contracts with customers which utilizes a single model for recognizing revenue from contracts with customers. Revenue is recognized in a manner that depicts the transfer of promised goods or services to the customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. For each contract with a customer, the Company applies the following five step model:

1. Identify the contract with a customer
2. Identify the performance obligation in the contract
3. Determine the transaction price which takes into account estimates of variable consideration and the time value of money
4. Allocate the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered
5. Recognize revenue when the performance obligation is satisfied and in a manner that depicts the transfer of the goods or services promised to the customer

The Company earns revenues from the sale of technology services sales arrangements that include multiple performance obligations, such as the construction of a bio-reactor, engineering, installation, and commissioning. In the majority of the Company's contracts, the customer controls the work in process as evidenced by the right to payment for work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to the Company. Based on the nature of these contractual arrangements, control is transferred over time and revenue is recognized over time.

For each performance obligation satisfied over time, the Company will recognize revenue by measuring progress toward complete satisfaction of that performance obligation. Using output or input methods based on the type of contract, the Company recognizes revenue in a pattern that reflects the transfer of control of the promised goods or services to the customer. Revenue from fixed price and cost reimbursable contracts is recognized using the input method with reference to costs incurred. If the outcome of a revenue contract cannot be estimated reliably for management to estimate the ultimate profitability of the contract with a reasonable degree of certainty, no profit is recognized. When further clarity is gained throughout the progression of the contract, the constrained margin and associated revenue will be reassessed.

For most customer arrangements, the customer contracts with the Company to provide a significant service of integrating a complex set of tasks and components into a single project or capability (even if that single project results in the delivery of multiple units). The Company therefore considers that the entire contract results in the delivery of a single performance obligation.

Where costs are determined to be greater than total revenues, losses from any contract revenues are recognized in full in the period the loss becomes apparent.

Contract costs

Contract costs are expensed as incurred unless they result in an asset related to future contract activity and meet the criteria to be capitalized as contract assets. Construction costs include all expenses that relate directly to execution of the specific contract, including labour and supervision, direct materials, subcontractor costs, equipment rentals and depreciation and design and technical assistance.

Contract assets and liabilities

Any excess of costs and estimated earnings over progress billings on construction contracts is carried as a contract asset in the financial statements. Contract assets also arise when the Company capitalizes incremental costs of obtaining contracts with customers and the costs incurred in fulfilling those contracts,

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

such as mobilization costs. Costs to fulfill a contract are required to be capitalized where they are determined to relate directly to a contract or an anticipated contract that the entity can specifically identify, they generate or enhance resources of the Company that will be used in satisfying performance obligations in the future, and they are expected to be recovered under that specific contract. In all cases, the specific contract asset is amortized into the project with reference to the same pattern of recognition as the revenue recognized on the associated project. Any excess of progress billings over earned revenue on construction contracts is carried as deferred revenue in the consolidated financial statements. All contract assets and liabilities are typically classified as current but there might be circumstances that they are classified as non-current in the consolidated financial statements as they are expected to be settled within the Company's normal operating cycle.

(ii) Nutraceutical products

The majority of the Company's revenue is derived from the sales of nutraceutical and related products to business customers and retail customers. Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods to a customer. The Company recognizes revenue when control of the goods has transferred, which is determined by respective shipping terms and certain additional considerations. Invoices are generally issued at the time of shipment (which is when the Company has satisfied its performance obligations under the arrangement). As such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due. The Company does not have performance obligations subsequent to delivery on the sale of goods to customers. Where the Company's role in a transaction is that of principal, revenue is recognized on a gross basis. This requires revenue to comprise the gross value of the transaction billed to the customer, after trade discounts, with any related direct costs recorded in direct costs.

Costs and Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Oil and Conventional Natural Gas

Revenue associated with the sales of crude oil, conventional natural gas and natural gas liquids owned by the Company is recognized when the customer obtains control of the goods, which is generally at a point in time when: i) the Company has transferred title and physical possession of the commodity to the buyer; ii) the Company has transferred significant risks and rewards of ownership of the commodity to the buyer (being the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods); and iii) the Company has the right to payment. Costs paid by the Company for the transportation of oil and conventional natural gas from wellhead to the point of title transfer are recognized when the transportation is provided.

Joint Arrangements

The Company's oil and conventional natural gas activities are owned and operated jointly with other parties. All the Company's joint arrangements are classified as joint operations. These financial statements reflect only the Company's appropriate share of the joint operation's controlled assets and liabilities it has incurred, its share of any liabilities jointly incurred, income from the sale or use of its share of the joint operation's output, together with its share of expenses incurred by the joint operation and any expenses it incurs in relation to its interest in the joint arrangement and a share of production in such activities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets

Amounts recorded for amortization of capital assets are based on management's best estimate of their useful lives. Accordingly, those amounts are subject to measurement uncertainty. Capital assets are stated at cost less accumulated depreciation and accumulated impairment loss.

The Company uses the straight-line method for amortization except oil and conventional natural gas property, plant and equipment assets, as follows:

Project equipment	5-20 years
Plant and machinery	10 years
Leasehold improvements	Life of lease
Furniture, fixtures and equipment	5 years
Computer hardware and software	3 years

All costs directly associated with the development and production of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets. Items of property, plant and equipment, which include oil and natural gas development assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Amortization and depletion methods, useful lives and residual values are reviewed at each reporting period.

(i) Depletion and depreciation

The net carrying value of oil and natural gas interests included in property, plant and equipment is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Oil and natural gas interests including processing facilities and well equipment are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Future development costs are estimated taking into account the level of development required to produce the reserves.

(ii) Impairment of capital assets

The carrying amounts of the Company's property, plant and equipment assets are reviewed at each reporting date to determine whether there is any indication of impairment. For the purpose of impairment testing, technology property, plant and equipment are tested separately and are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or cash generating units ("CGU").

For the purpose of impairment testing, property, plant and equipment for oil and conventional natural gas assets are tested separately and are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or cash generating units. Geological formation, product type, geography and internal management operations and processes are key factors considered when grouping the Company's oil and natural gas interests into CGU's.

For oil and conventional natural gas property, plant and equipment impairment indicators include, but are not limited to, extended decreases in prices or margins for oil and natural gas commodities or products, a significant downward revision in estimated reserves, an upward revision in future development costs, significant decrease in fair values of undeveloped lands in close proximity to lands held by the Company or management's decision to no longer pursue certain evaluation projects. If any such indication exists, then the asset's recoverable amount is estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets (Continued)

Impairment of capital assets (Continued)

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. Fair value is determined to be the amount for which the asset could be sold in an arm's-length transaction between knowledgeable and willing parties. Unless indicated otherwise, the recoverable amount used in assessing impairment losses is fair value less costs of disposal. The Company estimates fair value less cost of disposal using discounted future net cash flows of proved and probable reserves based on forecast prices and costs and including future development costs. The cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss in respect of property, plant and equipment recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Intangible assets

Patents represent the costs incurred to file the patent application, primarily relating to legal expenses, and are capitalized when the costs meet the intangible asset recognition criteria. Patents are recorded at cost and amortized over 20 years, according to their expected useful lives.

Assignments and transfers of intellectual property are recorded at the cost of acquiring the assignment and transfer and amortized over 20 years, according to their expected useful lives.

Research and development expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized when the underlying activities meet the intangible asset recognition criteria. In order for costs to be capitalized, an intangible asset must meet the criteria under IAS 38 Intangible Assets: (i) demonstration of technical feasibility, (ii) intention to complete; (iii) ability to use or sell; (iv) the ability to generate future economic benefits; (v) the availability of technical, financial and other resources; and (vi) the ability to measure reliably. If these criteria are not met, the costs are expensed as incurred.

Distribution rights are recorded at the cost of acquiring the distribution right and amortized over the period the distribution right is expected to be of benefit to the Company, which is 10 years.

Goodwill

Goodwill is initially recognized at cost, being the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and intangible acquired assets and liabilities assumed at the date acquired and is allocated to the cash generating unit ("CGU") expected to benefit from the acquisition. A CGU is the smallest group of assets for which there are separately identifiable cash flows.

Subsequently, goodwill assets are not amortized but are assessed at the end of each reporting period for impairment and more frequently whenever events or circumstances indicate that their carrying value may not be fully recoverable. The annual impairment test requires comparing the carrying values of the CGU's goodwill to their recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Company determines the value in use, using estimated future cash flows discounted at an after-tax rate that reflects the risk adjusted weighted-average cost of capital. Any excess of the carrying value amount of the CGU over the recoverable amount is expensed in the period the impairment is identified. An impairment loss recorded for goodwill is not reversed in a subsequent period. Upon disposal of a business, any related goodwill is included in the determination of gain or loss on disposal. The value-in-use is the present value of the estimated future cash flows relating to the assets using a pre-tax discounted rate specific to the asset or cash-generating unit

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Decommissioning liabilities

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of site restoration and capitalized to capital assets and are depleted over the useful life of the assets.

Decommissioning liabilities are measured at the present value of management's best estimate of the risk adjusted cash flows required to settle the present obligation at the statement of financial position date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. Subsequent to the initial measurement, the liability is adjusted at the end of each period to reflect the passage of time using a risk-free interest rate and changes in the estimated future cash flows underlying the liability. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases/decreases due to changes in the estimated future cash flows or timing are recognized as changes in the decommissioning liability and related asset. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the liability to the extent the liability was established. Any differences between the recorded liability and the actual costs incurred are recorded as a gain or loss in the statement of loss and comprehensive loss.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction of share capital. When the Company issues share capital for consideration other than cash, the transaction is recorded at the fair value of the share capital issued.

Where shares are issued in connection with warrants, the Company apportions the fair value of consideration between share capital and warrants by using the Black-Scholes pricing model to value the warrants first and then the residual value is allocated to share capital.

Stock-based compensation

The fair value of all stock options granted to employees (including directors and senior executives) is determined using the Black-Scholes option pricing model. The resulting value is charged to loss and comprehensive loss over the vesting period of the options. A corresponding increase to contributed surplus is recorded when employee stock options are expensed. Amounts relating to the issuance of shares are recorded as reduction of share capital.

The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Where equity instruments are granted to non-employees, they are recorded at the fair value of goods or services received in the statement of loss and comprehensive loss, unless the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, in which case the goods or services received are measured, indirectly, by reference to the fair value of equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders service.

For stock-based compensation with non-vesting conditions, the grant date fair value of stock-based payment is measured to reflect such conditions and there is no adjustment for differences between expected and actual outcomes. When a stock option is exercised, share capital is recorded at the sum of proceeds received plus the amount previously recorded in contributed surplus relating to the options exercised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes and deferred tax assets

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the statement of loss and comprehensive loss, except to the extent that they relate to items recognized directly in equity, in which case, the income taxes are also recognized directly in equity.

Current income taxes are the expected income taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous periods.

In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted as at the statement of financial position dates and are expected to apply when the deferred income tax asset is realized or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are remeasured at each statement of financial position date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

Investment tax credits and government grants

Government grants include funding for research and product development support. Research and product development funding is recognized when there is reasonable assurance that the Company has complied with the conditions attached to the funding arrangement and the funding will be received. Government assistance is recognized when receipt of the assistance is reasonably assured. Reasonable assurance is determined based on the Company's past experience with claims and collections. Research and product development funding and investment tax credits are presented as a reduction in research and development expenses, unless it is for reimbursement of an asset, in which case it is recognized as a reduction in the carrying amount of the applicable asset. Grants related to income are recorded through the consolidated statement of loss and comprehensive loss.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the company to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to the consolidated statement of profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

On the acquisition of a business, the Company assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Business combinations are initially accounted for on a provisional basis. The Company respectively adjusts the provisional amounts recognized and also recognizes additional assets or liability during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period extends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the Company receives all the information possible to determine the fair value.

Convertible debenture

Loans and borrowings are initially recognized at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortized cost using the effective interest method. The component of the convertible note that exhibits characteristics of a liability is recognized as a liability in the statement of financial position, net of transaction costs.

On the issuance of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortized cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognized as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognized and included in shareholders equity as part of contributed surplus, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. The corresponding interest on the convertible note is expensed to profit and loss.

Impairment of financial and contract assets

The consolidated entity recognizes a loss allowance for expected credit losses on financial assets which are either measured at amortized cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entities assessment at the end of each reporting period as to whether the financial instruments credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available without undue cost or effort to obtain.

IFRS 9 introduced a new 'expected credit loss' model for calculating impairment of financial assets. IFRS 9 specifies different approaches for measuring and recognizing expected credit losses, by considering only defaults in the next 12 months and/or the full remaining life of the financial asset. The expected credit loss model requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired, with subsequent changes in expected credit losses at each reporting date recorded to reflect any change in credit risk. IFRS 9 provides a simplified approach for certain trade receivables and IFRS 15 contract assets that have maturity dates of less than one year.

Comprehensive loss / loss per share

The basic comprehensive loss per share is computed by dividing the comprehensive loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflect the potential dilution of common share equivalents, such as outstanding stock options, convertible debentures and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive.

Financial assets and financial liabilities

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. Fair value estimates are made at the consolidated statement of financial

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
Financial assets and financial liabilities (Continued)

position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL") or amortized cost.

The Company has made the following classifications:

Cash and cash equivalents	Amortized cost
Receivables	Amortized cost
Other long-term assets	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans	Amortized cost
Interest payable	Amortized cost
Other long-term liabilities	Amortized cost

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Direct and indirect financing costs that are attributable to the issue of financial liabilities are presented as a reduction from the carrying amount of the related debt and are amortized over the terms of the related debt. These costs include interest, discounts or premiums relating to borrowings, fees and commissions paid to lenders, agents, brokers, advisers and transfer taxes and duties that are incurred in connection with the arrangement of borrowings.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Standards, interpretations and amendments to published standards adopted

The following revised standards are effective for annual periods beginning on January 1, 2019, and their adoption did not have an impact on these financial statements, but may affect the accounting for future transactions or arrangements:

IFRS 16 – Leases

Effective January 1, 2019, the Company adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. IFRS 16 supersedes previous accounting standards for leases, including IAS 17, Leases and IFRIC 4 – Determining whether an arrangement contains a lease. As a result of adopting IFRS 16, the Company has recognized an increase to both assets and liabilities on the consolidated statement of financial position, as well as a decrease in rent expense, with a corresponding increase in amortization (due to depreciation of the right-of-use assets) and increase in finance costs (due to accretion of the lease liability).

The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if

4. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

IFRS 16 – Leases (Continued)

the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and these amounts are recorded as an expenses when incurred.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient option not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

Initial impact of adoption and subsequent accounting of IFRS 16

On January 1, 2019, and during 2018 the Company had no leases with a term in excess of 12 months and accordingly the information presented in 2018 has not been restated. On January 30, 2019 the Company acquired Regenurex Health Corporation (Note 5) which had entered into a three year lease starting in February 1, 2019. The Company has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of \$122,000 were recorded as of February 1, 2019, as part of the purchase price allocation (Note 5) with no net impact on deficit. During the quarter ended June 30, 2019 the Company extended an existing short-term lease and recorded a right-of-use asset and lease obligation of \$72,000 after adjustments. From January 1, 2019, when measuring lease liabilities, the Company discounts lease payments using its incremental borrowing weighted-average rate applied of 12%.

IFRIC 23 Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (the "Interpretation"). The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted. The interpretation clarifies the accounting for income tax treatments (current and deferred tax) that have yet to be accepted by tax authorities. The Company adopted the Interpretation in its financial statements effective January 1, 2019. The amendments and additions to IFRIC 23 do not have an impact on the Company's consolidated financial statements or financial results.

Accounting standards issued but not yet adopted
IFRS 3 Business combinations

The IASB published amendments to IFRS 3 "Business Combinations". The amendment clarifies the definition of a business and outputs. The amendment also adds guidance that determines if substantive processes have been acquired or if an acquired set of activities and assets is a business. The amendments are effective for fiscal years beginning on or after January 1, 2020. The Company will apply these amendments to IFRS 3 to applicable future acquisitions.

Pond Technologies Holdings Inc.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019

5. BUSINESS COMBINATION TRANSACTIONS

Acquisition of Regenurex Health Corporation

On January 30, 2019 the Company acquired Regenurex Health Corporation ("Regenurex") by way of an amalgamation with a wholly owned subsidiary Pond Naturals Inc., with the resulting entity continuing under the name of Pond Naturals Inc. As consideration for their Regenurex shares, Regenurex shareholders are entitled to receive up to 6,250,000 shares of the Company.

The fair value of the share purchase consideration was determined using the following key assumption and inputs:

Method for determining fair value: - Company's share price less option value adjustment of 20% for lack of marketability

Share Price – Company's 5-day trailing stock price January 30, 2019

Option value model marketability discount 20% key assumptions:

Period of lack of marketability: - 1 year

Risk free rate: - 1.83%

Dividend yield – 0%

Volatility – 104.7%

The below summarizes the manner in which such Pond shares are to be issued:

Upon amalgamation, former holders of the Class A preferred shares of Regenurex received 3,539,198 non-voting senior preferred shares of Pond Naturals Inc. The senior preferred shares are exchangeable into common shares at the election of the holders thereof until August 1, 2022, at which time they will be automatically exchanged, for an aggregate of 2,211,998 Pond shares. Upon amalgamation, former holders of the common shares of Regenurex received 18,219,200 non-voting junior preferred shares of Pond Naturals Inc. The junior preferred shares are exchangeable into common shares at the election of the holders thereof until August 1, 2022, at which time they will be automatically exchanged, for an aggregate of 4,038,002 Pond shares.

In connection with closing of the Regenurex transaction, all of the outstanding stock options and warrants of Regenurex were cancelled or exchanged for Regenurex common shares (and then subsequently exchanged for junior preferred shares of Pond Naturals Inc. pursuant to the amalgamation).

The following sets forth the allocation of the purchase price to assets acquired and liabilities assumed based on estimates of fair value:

Consideration paid:

Fair value of the 6,250,000 shares of the Company on January 30, 2019	\$ 3,750,000
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Allocation of purchase price:

Cash and cash equivalents	\$ 61,131
Receivables and prepaids	109,680
Deferred income tax asset	821,899
Inventory	143,444
Right-of-use asset	121,634
Property plant and equipment	1,030,000
Accounts payable and accrued liabilities	(475,485)
Lease liability	(121,634)
Loans payable	(531,000)
Goodwill	2,590,331
	\$ 3,750,000

5. BUSINESS COMBINATION TRANSACTIONS (Continued)

Acquisition of Regenurex Health Corporation (Continued)

If the transaction had taken place on January 1, 2019, it is estimated that the assets acquired would have contributed incremental revenues and net loss before taxes of \$220,000 and \$550,000 respectively, for the year ended December 31, 2019.

Goodwill arose on the acquisition of Regenurex as the cost of the consideration paid for the combination effectively included amounts for the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

There were \$8,908 and \$65,250 in transaction related costs included in administrative expenses in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2019 and 2018 respectively.

Ironhorse and Pond Technologies Inc.

On January 30, 2018, Ironhorse completed a business combination (the "Transaction") with Pond Technologies Inc. ("PTI") by way of a "three-cornered amalgamation". The Transaction was effected pursuant to an amalgamation agreement dated October 4, 2017, as amended November 16, 2017, December 15, 2017, and December 21, 2017, between Ironhorse and PTI's wholly-owned subsidiary, 2597905 Ontario Inc., and PTI. Pursuant to the Transaction: (i) all of the issued and outstanding common shares in the capital of the Company were consolidated on the basis of a 6.9 pre-consolidation shares for each one post-consolidation share; (ii) the Company changed its name from "Ironhorse Oil & Gas Inc." to "Pond Technologies Holdings Inc."; (iii) all of the issued and outstanding common shares in the capital of PTI were exchanged on a one for one basis for 15,373,117 common shares of the Company; (iv) all of the outstanding stock options and warrants of PTI were cancelled and exchanged for equivalent stock options and warrants of the Company; and (v) 2597905 Ontario Inc. and PTI amalgamated and became a wholly-owned subsidiary of the Company.

Concurrent with the completion of the Transaction, PTI completed a brokered equity financing by issuing 2,641,873 subscription receipts ("Subscription Receipts") at a price of \$2.40 per Subscription Receipt, for aggregate gross proceeds of \$6,340,495. As a result of the satisfaction of the conditions to closing the Transaction, the escrow release conditions in respect of the Subscription Receipts were satisfied and the net financing proceeds were released to PTI and each Subscription Receipt was automatically exchanged for one common share of PTI and one common share purchase warrant of PTI, with each such warrant entitling the holder thereof to purchase one common share of PTI at a purchase price of \$3.00 and expiring 24 months from the date of issuance. In connection with the completion of the Transaction, such shares and warrants were subsequently cancelled and exchanged for equivalent common shares and warrants of the Company. As part of the commission payable to the agents under the financing, the agents received 194,681 compensation warrants, with each such warrant entitling the holder to purchase, in accordance with its terms, one common share and one warrant of the Company at a price of \$2.40 until January 30, 2020.

The Transaction was accounted for as a reverse take-over business combination transaction as the shareholders of PTI obtained a majority controlling interest of the Company, with the former shareholders of Ironhorse Oil & Gas Inc. retaining a non-controlling interest of the Company.

The purchase price has been allocated to the underlying assets and liabilities assumed, based upon their estimated fair values at the date of the Transaction. The fair value of the operating oil and gas property has been determined based on a report prepared by an Independent Qualified Reserves Evaluator in accordance with the standards set out in the Canadian Oil and Gas Evaluation Handbook, based on proved and probable reserves, estimated forecast prices and costs and calculated using a discount rate of 10%. The fair value of the consideration paid has been determined using the value of the common shares retained by the former shareholders of Ironhorse on January 30, 2018.

Pond Technologies Holdings Inc.
Notes to the Consolidated Financial Statements
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5. BUSINESS COMBINATION TRANSACTION (Continued)

Ironhorse and Pond Technologies Inc. (Continued)

The following sets forth the allocation of the purchase price to assets acquired and liabilities assumed based on estimates of fair value.

Consideration paid:

Fair value of the 4,041,313 post-consolidated shares of the Company on January 30, 2018	\$ 6,223,622
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Allocation of purchase price:

Cash and cash equivalents	\$ 2,129,787
Receivables	232,563
Prepaid expenses and other assets	144,735
Property plant and equipment	4,131,827
Accounts payable and accrued liabilities	(324,605)
Decommissioning liability	(90,685)
	\$ 6,223,622

If the Transaction had taken place on January 1, 2018, it is estimated that the assets acquired would have contributed incremental revenues and net loss before taxes of \$288,000 and \$100,000 respectively, for the year ended December 31, 2018.

The fair value of receivables reflected the gross contractual amount of the receivables.

There was \$842,913 in transaction related costs included in the consolidated statement of changes in shareholder's equity for the year ended December 31, 2018.

6. RECEIVABLES

Receivables include customers and government balances. Accounts receivable from customers arise from transactions in the ordinary course of business. The government receivables arise from SR&ED and HST and GST recoveries. The past due amounts total \$98,299 (2018: \$15,482).

	Dec 31, 2019	Dec 31, 2018
Customer accounts	\$ 329,298	\$ 53,430
Government receivables	112,625	81,816
	\$ 441,923	\$ 135,246

7. INVENTORIES

The inventory balances arising from the nutraceutical business are as follows:

	Dec 31, 2019	Dec 31, 2018
Raw materials	\$ 116,632	\$ -
Work-in-process	28,857	-
Finished goods	55,339	-
	\$ 200,828	\$ -

The cost of nutraceutical inventories recognized as an expense during the year in respect of continuing operations was \$3,030,067.

Pond Technologies Holdings Inc.
Notes to the Consolidated Financial Statements
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8. INTANGIBLES

	Patent Filing Costs and Acquired Intellectual Property	Distribution Rights	Total
<i>Cost</i>			
Balance, January 1, 2018	\$ 2,726,281	\$ -	\$ 2,726,281
Additions	8,495	640,000	648,495
Balance, December 31, 2018	2,734,776	640,000	3,374,776
Additions	132,348	-	132,348
Balance, December 31, 2019	2,867,124	640,000	3,507,124
<i>Accumulated amortization</i>			
Balance, January 1, 2018	890,850	-	890,850
Additions	136,426	5,333	141,759
Balance, December 31, 2018	1,027,276	5,333	1,032,609
Additions	139,158	63,997	203,155
Balance, December 31, 2019	1,166,434	69,330	1,235,764
<i>Net carrying amount</i>			
Balance, January 1, 2018	1,835,431	-	1,835,431
Balance, December 31, 2018	1,707,500	634,668	2,342,168
Balance, December 31, 2019	\$ 1,700,690	\$ 570,670	\$ 2,271,360

The majority of the Company's patents are process patents. During 2011 the Company acquired through assignment from St. Marys Cement Inc. (Canada) all of the developing intellectual property and knowledge arising from the building and operating the first pilot plant facility at St Marys site for \$1,738,000 in share consideration.

On November 30, 2018 the Company acquired the exclusive Canadian distribution and sale rights for certain products of RFI, LLC. The Company paid \$320,000 cash and issued 516,128 common shares at a common share price of \$0.62 for a total share consideration of \$320,000 as the fair value of the asset acquired could not be reliably estimated. The exclusive distribution rights have an initial term of 5 years with an exclusive right to renew for a further 5 years, provided certain sales targets are met. The Company is amortizing the total \$640,000 consideration paid over 10 years.

9. GOODWILL

On January 30, 2019 the Company acquired Regenurex Health Corporation (Note 5). Goodwill of \$2,590,331 was determined based upon the allocation of the fair value of the consideration paid and fair value of assets and liabilities assumed.

Balance, January 1, 2019	\$ -
<i>Cost</i>	
Additions through acquisition	2,590,331
<i>Impairment</i>	
Impairment charge	(2,490,000)
Balance, December 31, 2019	\$ 100,331

In determining a goodwill impairment charge of \$2,490,000 the Company reviewed cash flow projections during a forecasted period based on expected gross margins and raw materials price inflation throughout the forecast period. The cash flows beyond the five-year period have been extrapolated using a steady 2.0% per annum growth rate which is the projected long-term average growth rate. The recoverable amount used a pre-tax discount rate of 26.7% per annum.

Pond Technologies Holdings Inc.
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10. CAPITAL ASSETS

	Project equipment plant machinery and leasehold improvements	Furniture fixtures and equipment	Computer hardware and software	Oil & natural gas property plant and equipment	Total
<i>Cost</i>					
Balance, January 1, 2018	\$ 2,377,850	\$ 111,980	\$ 104,815	\$ -	\$ 2,594,645
Additions	104,723	2,669	7,909	4,131,827	4,247,128
Disposals	(698,442)	-	(4,633)	-	(703,075)
Change in decommissioning liability	-	-	-	3,307	3,307
Balance, December 31, 2018	1,784,131	114,649	108,091	4,135,134	6,142,005
Acquired through acquisition	1,017,000	11,000	2,000	-	1,030,000
Additions	51,442	-	6,113	-	57,555
Disposals	(51,437)	-	(1,505)	-	(52,942)
Change in decommissioning liability (Note 10)	-	-	-	1,845	1,845
Balance, December 31, 2019	2,801,136	125,649	114,699	4,136,979	7,178,463
<i>Accumulated amortization</i>					
Balance, January 1, 2018	1,491,963	47,569	67,142	-	1,606,674
Amortization	186,024	10,322	13,248	520,317	729,911
Disposals	(446,207)	-	(3,974)	-	(450,181)
Balance, December 31, 2018	1,231,780	57,891	76,416	520,317	1,886,404
Amortization and depletion	224,499	13,467	12,133	381,000	631,099
Disposals	(35,187)	-	(981)	-	(36,168)
Impairment	-	-	-	812,000	812,000
Balance, December 31, 2019	1,421,092	71,358	87,568	1,713,317	3,293,335
<i>Net carrying amount</i>					
Balance, January 1, 2018	885,887	64,411	37,673	-	987,971
Balance, December 31, 2018	552,351	56,758	31,675	3,614,817	4,255,601
Balance, December 31, 2019	\$ 1,380,044	\$ 54,291	\$ 27,132	\$ 2,423,662	\$ 3,885,128

Depletion

Future development costs of \$70,300 (2018 - \$70,300) associated with the development of the Company's proved plus probable reserves were included in the calculation of depletion for the year ended December 31, 2019.

Impairment

The Company assesses many factors when determining if an impairment test should be performed. For the years ended December 31, 2019, and December 31, 2018 the Company conducted an assessment of impairment indicators for the Company's technology services, nutraceutical products and oil and conventional natural gas CGU.

In performing the review of the technology CGU, management determined there was no impairment loss for the year ended December 31, 2019 based on the future net cash flows arising from the commercial applications of this group.

In performing the review of the oil and conventional natural gas CGU, management determined that the continued depressed commodity pricing and the impact this has on the economic performance of the Company's CGU justified calculation of the recoverable amounts of the CGU. The recoverable amounts were estimated at value in use (2018 - fair value less costs of disposal) based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by external engineers.

The future net cash flows were discounted at a rate of 15% (2018 - 10%). There was an impairment loss of \$812,000 for the Company's oil and natural gas property CGU for the year ended December 31, 2019. Key assumptions used in the determination of the recoverable amounts of each CGU include commodity prices and discount rates applied to cash flows from proved and probable reserves.

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10. CAPITAL ASSETS (Continued)

There was no impairment loss required for the Company's oil and natural gas property CGU for the year ended December 31, 2018.

The forecasted commodity prices used in the impairment test at December 31, 2019 were as follows (CDN\$/bbl):

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Canadian											
Light Sweet	73.64	78.51	78.73	80.30	81.91	83.54	85.21	86.92	88.6	90.43	92.24
Crude											

The forecasted commodity prices used in the impairment test at December 31, 2018 were as follows:

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Canadian	75.27	77.89	82.85	84.79	87.39	89.14	90.92	92.74	94.60	96.49	98.42
Light Sweet											
Crude											

For purposes of the impairment test, the benchmark commodity prices forecast above are adjusted to reflect varied delivery points and quality differentials in the products delivered.

11. RECOVERY OF ENVIRONMENTAL COST

On October 15, 2019 the Company received \$300,000 from Grizzly Resources Limited ("GRL"). The receipt was a recovery of an environmental cost deposit advanced to GRL on January 30, 2018 to cover potential abandonment and reclamation obligations for properties which were transferred to Grizzly prior to the January 30, 2018 amalgamation.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Dec 31, 2019	Dec 31, 2018
Accounts payable	\$ 1,021,937	\$ 654,569
Interest payable	345,701	224,699
Payroll and other accruals	311,975	201,362
	\$ 1,679,613	\$ 1,080,630

13. LOANS PAYABLE

Loans

A summary of the changes in the loans payable balance is as follows:

	CW(i)	SMC	FedDev (ii)	Regenurex (iii)	Total
Balance, January 1, 2018	\$ 4,500,000	\$ 300,000	\$ 413,145	\$ -	\$ 5,213,145
Accretion	-	-	60,255	-	60,255
Repayments	(1,000,000)	(300,000)	(105,000)	-	(1,405,000)
Balance, December 31, 2018	3,500,000	-	368,400	-	3,868,400
Regenurex loans acquired in acquisition	-	-	-	531,000	531,000
Accretion	-	-	31,534	-	31,534
Loan modification gain	(56,753)	-	-	-	(56,753)
Repayments	(600,000)	-	(197,927)	(469,000)	(1,266,927)
Balance, December 31, 2019	2,843,247	-	202,007	62,000	3,107,254
Less: Current portion of loans payable	-	-	202,007	62,000	264,007
Long-term portion of loans payable	\$ 2,843,247	\$ -	\$ -	\$ -	\$ 2,843,247

13 LOANS PAYABLE (Continued)

(i) Crystal Wealth Management System Ltd. ("CW" or "Crystal Wealth")

The loan initially bore interest at 12% per annum and is secured by a general security agreement with a first charge on the Company's assets and a specific assignment of rights in all patents.

On August 11, 2017, the loan was amended to, among other things, reduce the interest rate to 8% per annum, extend the maturity date to June 30, 2019 (which was further amended to June 30, 2021), and include a deferral of quarterly interest payable of 4%.

The Company paid \$1,000,000 on January 30, 2018, and \$600,000 on June 28, 2019 to CW to reduce the principal balance from \$4,500,000 to \$2,900,000.

In addition, amendments to the loan provide that once the aggregate of the proceeds of any financing transaction and the proceeds of any sale transaction of the oil and conventional natural gas asset is equal to or greater than \$2,500,000, 20% of the net proceeds received by the Company are to be paid to CW within three days of the date that such proceeds are received. Should the Company enter into one or more financing transactions pursuant to which a sum equal to or greater than \$2,500,000 is to be paid to the Company in separate tranches, the Company shall pay to CW 20% of each tranche within three days of receipt. If the aggregate of the proceeds of any financing transactions and the sale of the oil and conventional natural gas assets are equal to or exceed \$10,000,000 Pond will be required to repay the indebtedness in full including all principal, interest and other fees which may be outstanding at the time.

(ii) Federal Economic Development Agency ("FedDev")

The Company has a loan agreement with the FedDev and has received advances disbursed at a monthly rate of 33.33% of eligible costs as defined in the agreement, subject to achievement of certain milestones. Under the terms of the loan agreement, the loan bears no interest and is repayable in 60 equal monthly installments of \$13,708 beginning on January 1, 2015.

The FedDev loan was fair valued at inception and interest accretion for the imputed interest rate is treated as a finance expense each year.

On December 29, 2016, the monthly instalments were reduced to \$2,500 until January 1, 2018 after which the payments were increased to \$8,750 for year ended 2018 and increased to \$16,494 thereafter for the remaining term of the loan.

(iii) Regenurex

The Company assumed \$531,000 of loans from the acquisition of Regenurex Health Corporation (Note 5). As at December 31, 2019 one unsecured promissory note in the amount of \$62,000 remained outstanding with an interest cost of \$1,000 per month.

14. Convertible Debenture

On November 21, 2019, the Company issued a secured convertible debenture to Georgian Villas Inc. ("GV"), an entity controlled by one of Pond's directors, Mr. Robert McLeese (Note 22) with respect to a \$2,000,000 loan provided by GV. The debenture matures on November 15, 2021, bears interest at 12% per annum, payable quarterly. The debenture is convertible, at the option of the lender, into common shares of Pond after the first anniversary date of the Loan at a conversion price of \$1.00 per share, and is secured by a first priority interest over all of the Company's present and after-acquired property and assets, excluding any equity interests from time to time held in Paige. As consideration for agreeing to provide the loan, GV also received a cash fee equal to 4% (\$80,000) of the principal amount of the loan.

Pond Technologies Holdings Inc.
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14. Convertible Debenture (Continued)

On the issue of the convertible note the fair value of the liability component was determined to be \$1,664,355 using a 36% market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortized cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognized as a finance cost as interest accretion.

Convertible debenture principal amount at date of issue	\$	2,000,000
Fair value of debt at date of issue		1,664,355
Issuance costs of debt		(66,574)
Interest accretion		17,702
Balance - December 31, 2019	\$	1,615,483

The difference between the fair value of the debt portion and principal amount of proceeds at date of issue of \$335,645 is determined to be the fair value of the conversion option that is recognized and included in shareholders equity as a convertible note reserve, net of transaction costs amounting to \$13,426.

15. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

The Company's leases are for office space. Certain of the leases contain renewal options. The Company has included renewal options on the measurement of lease obligations when it is reasonably certain that the Company will exercise the renewal option.

The following table sets out the Company's lease liabilities:

Lease liabilities, December 31, 2018	\$	-
Additions		221,203
Assumed through business combination		121,634
Interest on lease liabilities		28,478
Lease payments		(84,649)
Lease liabilities, December 31, 2019	\$	286,666
Current		74,623
Non-current		203,043
Lease liabilities, December 31, 2019	\$	277,666

The following table presents the associated right-of-use assets for the Company:

Balance, December 31, 2018	\$	-
Additions		212,203
Assumed through business combination		121,634
Amortization		(69,416)
Right-of-use asset, December 31, 2019	\$	264,421

Pond Technologies Holdings Inc.
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15. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS (Continued)

Amounts recognized in statement of loss and comprehensive loss:

	Twelve Months Dec. 2019
Amortization for right-of-use asset	\$ 69,416
Interest expense on lease liabilities	28,478
	\$ 97,894

16. DECOMMISSIONING LIABILITIES

	Dec.31, 2019	Dec 31, 2018
Balance, beginning of year	\$ 96,015	\$ -
Assumed through business combination (Note 5)	-	90,683
Change in estimates and discount rate	1,844	3,307
Settlement of decommissioning liabilities	(929)	-
Accretion expense	1,845	2,025
Balance	\$ 98,775	\$ 96,015

The Company's decommissioning liabilities result from the net ownership interests in oil and conventional natural gas assets including a well site, gathering systems and production equipment. The total undiscounted amount to settle the Company's decommissioning liabilities is estimated at \$127,033 (2018: \$117,808). The expected timing of the decommissioning expenditures extends to 2033. A risk-free rate of 1.47% - 1.76% (2018: 1.86% - 2.18%) and an inflation rate of 2% were used to calculate the present value of the decommissioning liabilities.

The risk-free rate used in the calculation of the net present value can have a significant impact on the carrying value of decommissioning liabilities. A 1% increase in the risk-free rate would decrease the decommissioning liability by an immaterial amount at December 31, 2019.

Pond Technologies Holdings Inc.
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17. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares.

	Number of shares	Amount
Balance, as at January 1, 2018	12,731,245	13,678,295
Shares issued business combination (Note 5)	4,041,313	6,223,622
Shares, warrants and Agent Warrants issued concurrent financing (Note 5)	2,641,873	4,068,484
Share issuance costs	-	(689,647)
Shares issued to purchase distribution rights (Note 8)	516,128	320,000
Shares issued on conversion of Agent Warrants	2,406	5,774
Expired warrants and Agent Warrants	-	69,862
Balance, as at December 31, 2018	19,932,965	23,676,390
Acquisition of Regenurex Health Corporation (Note 5)	-	3,750,000
Share issuance	2,742,504	909,666
Issuance costs	-	(53,046)
Expired Warrants and Agent Warrants	-	305,092
Balance, as at December 31, 2019	22,675,469	28,588,102

Transactions in 2018

On January 30, 2018, PTI completed the business combination transaction with Pond as set out in Note 5.

For the non-brokered private placements, the Company adopted a residual value method with respect to measurement of shares and warrants issued as private placement units. The Agent Warrants were measured at fair value amounting to \$186,135.

The total consideration was allocated between common shares and warrants with the warrants being measured first, at fair value amounting to \$2,277,294, and the residual being applied to common shares.

On August 2, 2018 the Company issued 2,406 shares and 2,406 warrants for a total consideration of \$5,774 upon the exercise of 2,406 Agent Warrants at \$2.40.

Purchase of RFI LLC Canadian distribution rights

On November 30, 2018 the Company issued 516,128 common shares at a common share price of \$0.62 as partial consideration for the purchase by the Company for the exclusive Canadian distribution rights to the RFI LLC products for a total share consideration of \$320,000 as set out in Note 8.

Transactions in 2019

Acquisition of Regenurex Health Corporation

On January 30, 2019, the Company completed the acquisition of Regenurex through the issuance of senior and junior preferred shares of Pond Naturals Inc., as set out in Note 5. These preferred shares are exchangeable into 6,250,000 common shares of Pond with such shares valued by the parties, at the time of entering into the amalgamation agreement at \$0.80 per share, or \$5,000,000 in aggregate. The below summarizes the manner in which such Pond Shares shall be issued:

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17. SHARE CAPITAL (Continued)

Acquisition of Regenurex Health Corporation (Continued)

- Upon amalgamation, former holders of the Class A preferred shares of Regenurex received 3,539,198 non-voting senior preferred shares of Pond Naturals Inc. The senior preferred shares are exchangeable into Pond common shares through mutual agreement between Pond and the senior preferred shareholders until August 1, 2022, at which time they will be automatically exchanged, for an aggregate of 2,211,998 Pond shares.
- Upon amalgamation, former holders of the common shares of Regenurex received 18,219,200 non-voting junior preferred shares of Pond Naturals Inc. The junior preferred shares are exchangeable into Pond common shares through mutual agreement between Pond and the junior preferred shareholders until August 1, 2022, at which time they will be automatically exchanged, for an aggregate of 4,038,002 Pond shares.
- No Regenurex Class A preference shares or common shares were converted to Pond common shares as of December 31, 2019.
- A reserve for exchangeable shares in the amount of \$3,750,000 is presented as a separate category within share capital in the consolidated statements of changes in shareholders' equity in respect of these exchangeable shares.

Non-Brokered private placement

On June 14, 2019, the Company issued a total of 2,742,504 units at \$0.75/unit for \$2,056,878. Each unit was comprised of one common share and one warrant. Each warrant may be exercised for one additional common share at a price of \$1.00 per common share on the earlier of 30 days after the holder of the warrant receives notice from the Company that the Company's shares had traded at a price of \$1.25 per share for at least 10 consecutive days on the TSXV or 2 years from date of issuance.

Stock option plan

The Company has a stock option plan in place under which the Board of Directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and other service providers. The stock options vest according to the provisions of the underlying directors' resolution approving the issuance.

Stock Options	Number of options outstanding	Weighted average exercise price
Balance, as at January 1, 2018	1,085,000	\$ 2.00
Granted during period	537,500	2.00
Balance, as at December 31, 2018	1,622,500	2.00
Granted during period	-	2.00
Forfeited during period	(30,000)	2.00
Balance, as at December 31, 2019	1,592,500	\$ 2.00

During the year ended December 31, 2019, the Company granted Nil (2018 – 537,500) stock options with a fair value of \$Nil (2018 – \$352,145) at the date of grant to employees and directors. For stock options granted in 2018 one third of the stock options vested immediately, one third after twelve months and one third after twenty-four months. The fair value was determined using the Black-Scholes option pricing model at the weighted average assumptions:

	2019	2018
Risk-free interest rate	-	1.97%
Estimated life of options (years)	-	5.00
Expected volatility	-	80%
Price of shares at date of issuance	-	\$ 1.43
Exercise price of options	-	\$ 2.00
Dividend yield	-	0%

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17. SHARE CAPITAL (Continued)

Stock option plan (Continued)

Expected volatility was determined using the Company's actual share volatility and comparable companies' volatility at the time of the grant. As at December 31, 2019, 1,592,500 (2018 – 1,184,167) stock options were exercisable and the weighted average remaining contractual lives of the stock options was 2.2 years (2018 – 3.2 years).

Contributed surplus

Contributed surplus is comprised of the following:

	Dec 31, 2019	Dec 31, 2018
Stock options and other	\$ 2,418,150	\$ 1,766,839
Warrants and Agent Warrants	5,278,789	2,826,576
	\$ 7,696,939	\$ 4,593,415

Warrants

The Company has issued warrants and Agent Warrants as part of the brokered and non-brokered placements, conversion of loans and debt settlements.

	Number of			
	Warrants	Agent Warrants	Total	Amount
Balance, as at January 1, 2018	2,437,340	161,800	2,599,140	\$ 586,275
Warrants issued on subscription of units	2,641,873	194,681	2,836,554	2,463,429
Warrant issuance costs	-	-	-	(153,266)
Exercise of Agent Warrants	2,406	(2,406)	-	-
Expired Warrants and Agent Warrants	(392,340)	(26,800)	(419,140)	(69,862)
Balance, as at December 31, 2018	4,689,279	327,275	5,016,554	2,826,576
Extension of Warrants	-	-	-	1,645,090
Warrants issued on subscription of units	2,742,504	-	2,742,504	1,145,286
Warrants issued for agent fees	-	51,347	51,347	21,443
Issuance costs	-	-	-	(54,514)
Expired Warrants and Agent Warrants	(20,000)	(135,200)	(155,200)	(305,092)
Balance, as at December 31 2019	7,411,783	243,422	7,655,205	\$ 5,278,789

As at December 31, 2019, 7,411,783 warrants and 243,422 Agent Warrants were outstanding (2018 – 4,689,279 warrants and 327,275 Agent Warrants), with an average exercise price of \$2.18 and \$2.40 (2018: \$2.50 and \$3.00), respectively and an average estimated life of 1.2 years (2018: 1.8 years).

On January 3, 2019 the TSX Venture Exchange consented to the extension in the expiry date of 4,666,873 Warrants. The exercise price of the Warrants remained unchanged.

For the warrants and Agent Warrants issued in the non-brokered private placement and the brokered private placement, the fair value has been determined as \$1,166,729 using the Black-Scholes option pricing model and the following weighted average assumptions:

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17. SHARE CAPITAL (Continued)
Warrants (Continued)

	2019	2018
Risk-free interest rate	1.39%	1.25%
Estimated life of warrants and Agent Warrants (years)	2.00	2.00
Expected volatility	110%	81%
Price of shares at date of issuance	\$ 0.80	\$ 2.33
Exercise price of warrants	\$ 1.00	\$ 3.00
Dividend yield	0%	0%

Deferred share units

The directors of the Board may elect to receive a portion of their compensation in the form of a deferred share unit ("DSUs") in any year, based on the terms and conditions of the Deferred Share Unit Plan which was established on October 11, 2018. A deferred share unit account ("DSU Account") is established for each participant and is credited with notional grants of DSU's to which each participant is entitled.

The number of DSU's granted to a participant's DSU Account is determined quarterly, based on the monetary amount of the participant's annual fee compensation and the closing price of the Company's common shares on the TSX Venture Exchange on the date of grant. At such time as a director ceases to be a director, the Company's Nomination and Compensation Committee has chosen to settle the DSU Account in Company common shares from treasury.

As at December 31, 2019 there were 484,941 (2018:128,799) DSU's outstanding for which the Company recognized a \$196,750 charge to contributed surplus (2018- \$132,917) for the year ended December 31, 2019.

18. REVENUE, CONTRACT RECEIVABLE AND DEFERRED CONTRACT REVENUE

Revenue comprises sales and services to external customers (excluding HST and other sales taxes). Revenue from the transfer of goods or services to customers is recognized in amounts that reflect the consideration (that is, payment) to which the Company expects to be entitled in exchange for those goods or services.

The majority of the Company's Nutraceutical Products revenue is generated from a purchase order contract in which nutraceutical goods, shipping and payment terms are specified. Revenue is recognized when the terms of the commitment are completed. Payment is normally thirty days from the date of invoice by the customer.

The majority of the Company's technology services revenue was generated from a contract in which goods and services are typically provided over time. The Company's revenue of \$1,058,495 (2018: \$1,357,949) for the year ended December 31, 2019, was derived from several contractual obligations. Revenues from contracts are recognized on a percentage of completion basis. Deferred revenue is the difference between actual amounts invoiced and the amount of revenue recognized and is recorded in the consolidated statements of financial position.

Stelco Algae Holdings

During September 2018 the Company entered into a 'Notice to Proceed' agreement with Stelco Algae Holdings Inc. ("Stelco"), a special purpose company owned by Stelco Holdings Inc. to develop an Algae Carbon Abatement Facility ("the Project") at Stelco's Lake Erie Works ("the Project Site"). The Project includes the following; i) the manufacture and installation of a 45,000 litre bioreactor system at the Project Site; and ii) subject to verification of Project viability and the receipt of applicable regulatory and third party approvals, the installation of a commercial seed system scale bioreactor at the Project Site.

Prior to the "notice to proceed" arrangement, in November 2017, Stelco, the Company and the Ontario Centres for Excellence Inc. ("OCE") entered into a Target GHG Industrial Demonstration Program Funding Agreement ("OCEFA") pursuant to which the OCE will fund up to 50% of eligible Project costs to a maximum of \$5 million.

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18. REVENUE, CONTRACT RECEIVABLE AND DEFERRED CONTRACT REVENUE (Continued)

Stelco Algae Holdings (Continued)

Eligible expenses which are to be reimbursed through OCEFA have been financed by the Company through a promissory note arrangement with Stelco. The promissory note is a non-interest bearing revolving loan facility with a maximum borrowing capacity of \$2.5 million and a maturity date of June 30, 2020. The promissory note bears interest at a rate of 15% per annum if cash reimbursements of eligible expenses received by Stelco are not repaid to the Company within 10 business days of receipt from OCE.

During the year ended December 31, 2019 the Company made advances under the terms of the promissory note of \$732,799 (2018: \$2,136,326) and received repayments of \$354,464 (2018: \$1,136,189) resulting in a contract receivable balance of \$1,378,473 (2018: \$1,000,137) at December 31, 2019. The contract receivable matures in less than one year and therefore, the Company adopted the practical expedient in IFRS 15 and did not discount the contract receivable.

Impairment charge

Due to the uncertainty relating to possible future project financing relating to the Stelco project the Company has taken an impairment charge of \$674,035 against the contract receivable balance owed by Stelco. The impairment charge was calculated using the estimated replacement cost of property plant and equipment, less amortization reflecting the carrying value of its security value in the contract receivable.

Deferred Contract Revenue

A reconciliation of the beginning and ending carrying amounts of deferred revenue is as follows:

	Dec.31, 2019	Dec 31, 2018
Balance, beginning of year	\$ 532,636	\$ 17,500
Related revenue earned in the period	(851,498)	(1,432,949)
Payments received in the period	756,009	1,948,085
	\$ 437,147	\$ 532,636

19. BREAK DOWN OF EXPENSES

The details for operating and general and administrative expenses, are as follows:

Year ended December 31,	2019	2018
<i>Operating expenses</i>		
Salaries and benefits	\$ 2,031,388	\$ 1,617,039
Rent	127,328	81,352
Travel and transportation	294,102	203,135
Project supplies and maintenance	191,263	59,093
Cost recoveries	-	(55,162)
	\$ 2,644,081	\$ 1,905,457
<i>General and administrative expenses</i>		
Legal	\$ 526,476	\$ 438,195
Computer	76,501	99,828
Consultants, advisors and other	1,630,671	1,675,377
	\$ 2,233,648	\$ 2,213,400

Pond Technologies Holdings Inc.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019

19. BREAK DOWN OF EXPENSES (Continued)

During 2018, the cost recoveries represent the reimbursement of salaries and benefits of employees that have been seconded to the National Research Council and the reimbursement of salaries and overhead costs relating to NRG Cosia Carbon X-Prize competition.

20. FINANCIAL EXPENSES

Year ended December 31,	2019	2018
Interest expense on loans	\$ 339,756	\$ 523,406
Interest accretion, net of imputed interest adjustment	31,534	60,255
Interest on debenture	26,892	-
Accretion on debenture	17,702	-
Interest on lease obligations	28,478	2,459
Bank and other expenses	38,021	5,585
	\$ 482,383	\$ 591,705

21. INCOME TAXES

The following table reconciles income tax recovery calculated at the basic Canadian corporate tax rate with the income taxes recorded in these financial statements:

	2019	2018
Net loss before income taxes	\$ (9,092,118)	\$ (5,373,510)
Statutory tax rates	26.56%	26.57%
Expected income tax recovery	(2,414,771)	(1,427,984)
<i>Increase in income tax due to the following:</i>		
Permanent and temporary differences, net	290,397	108,189
Deferred tax asset not recognized	2,124,374	1,319,795
Income tax recovery	\$ -	\$ -

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2019	2018
Non-capital losses	\$ 11,276,454	\$ 7,325,457
Investment tax credits	-	194,939
Excess of undepreciated capital costs over net carrying value	528,333	634,064
Excess of net carrying amount over cumulative eligible capital	(226,181)	(144,451)
Other	30,309	(31,874)
Unrecognized deferred tax asset	(10,787,016)	(7,978,135)
	\$ 821,899	\$ -

Pond Technologies Holdings Inc.
Notes to the Consolidated Financial Statements
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21. INCOME TAXES (Continued)

As at December 31, 2019, the Company has non-capital loss carryforwards for income tax purposes, which may be available to reduce taxable income in future years. The amounts and expiry dates are as follows:

Non-capital loss carryforwards	2019
2029	\$ 580,670
2030	1,649,469
2031	3,806,669
2032	10,393,883
2033	2,090,976
2034	3,772,895
2035	2,481,200
2036	4,242,476
2037	3,432,314
2038	5,005,453
2039	5,090,799
	\$ 42,546,804

Included in the non-capital carryforward is \$8,630,194 of losses which are restricted to oil and conventional natural gas business and \$3,938,000 of losses that are recognized as deferred tax asset within Pond Naturals Inc.

As at December 31, 2019, the Company has investment tax credits earned as a result of incurring Scientific Research and Experimental Development expenditures. Management records investment tax credits when there is reasonable assurance of collection. Investment tax credit amounts, which have not been recognized in these financial statements, and expiry dates are as follows:

Investment tax credits	2019	2018
2029	\$ 104,861	\$ 97,068
2030	14,192	14,192
2038	36,901	83,679
	\$ 155,954	\$ 194,939

Pond Technologies Holdings Inc.
Notes to the Consolidated Financial Statements
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22. RELATED PARTY TRANSACTIONS

The Company enters into related party transactions with management and arrangements with its shareholders. Details of these transactions and year end balances are as follows:

Year ended December 31,	2019	2018
<u>Transactions:</u>		
Loan interest to shareholders CW and GV	\$ 437,718	\$ 523,406
Legal services rendered to the Company	72,992	-
Pembina property management fee	90,000	82,500
<u>Balances, end of year</u>		
Loan payable to CW	2,843,247	3,500,000
Debenture to GV	\$ 1,842,457	\$ -

Key management include key effective management and Board of Directors. In addition to their salaries, key executive officers participate in short-term bonus plans based on the financial performance of the Company and other non-financial factors, set annually. The Company provides a benefit plan and other allowances to executive officers. In addition, key executive officers are granted stock options at the discretion of the Board of Directors.

Key management compensation is comprised of:

Year ended December 31,	2019	2018
Stock based compensation	\$ 67,162	\$ 310,384
Director and committee fees - cash and DSU	196,750	43,500
Salaries and benefits	\$ 604,657	\$ 580,377

23. SEGMENTED INFORMATION

The Company considered the basis on which it is organized including service and product offerings and geographic areas and segmented reporting is based on identifiable reporting segments. Operating segments of the Company are defined as components of the Company for which separate financial information is available and are evaluated regularly by the chief operating segment decision maker when allocating resources and assessing performance. The chief operating decision maker is the CEO of the Company and the Company's operating segments and are based on its three primary offerings and one regional geographic area.

The three reportable segments for year ended December 31, 2019, are Nutraceutical Products (including production and sales to consumers and business and distribution or third party products) Technology Services (including the production of microalgae biomass, consulting, engineering services and the construction of biomass production facilities) and Oil and Natural Gas production. The Nutraceutical Products segment is a new segment for the year ended December 31, 2019 and arose through the acquisition of Regenurex (Note 5) and the acquisition of Distribution rights (Note 8).

Pond Technologies Holdings Inc.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019

23. SEGMENTED INFORMATION (Continued)

Reportable Segments

Consolidated Statements of Financial Position As at December 31, 2019	Nutraceutical Products	Technology Services	Oil and Natural Gas	Other	Total
Non-Current Assets					
Intangibles	\$ 570,671	\$ 1,700,690	\$ -	\$ -	\$ 2,271,361
Goodwill	100,331	-	-	-	100,331
Right-of-use asset	183,830	80,591	-	-	264,421
Capital assets	\$ 964,188	\$ 497,278	\$ 2,423,662	\$ -	\$ 3,885,128

	For The Year Ended December 31, 2019				
Consolidated Statement of Loss & Comprehensive Loss	Nutraceutical Products	Technology Services	Oil and Natural Gas	Other	Total
Revenue					
Nutraceutical products	\$ 3,553,123	\$ -	\$ -	\$ -	\$ 3,553,123
Technology services	-	851,498	-	-	851,498
Oil and conventional natural gas	-	-	1,731,055	-	1,731,055
	3,553,123	851,498	1,731,055	-	6,135,676
Direct costs and expenses					
Nutraceutical products	(3,025,880)	-	-	-	(3,025,880)
Technology services	-	(722,570)	-	-	(722,570)
Oil and conventional natural gas royalties	-	-	(688,475)	-	(688,475)
Oil and conventional natural gas operating costs	-	-	(530,303)	-	(530,303)
Operating expenses	(472,870)	(2,171,211)	-	-	(2,644,081)
General and administrative expenses	(375,681)	(1,364,640)	-	(493,327)	(2,233,648)
Amortization & depletion	(143,258)	(313,571)	(446,841)	-	(903,670)
Impairment of goodwill	(2,490,000)	-	-	-	(2,490,000)
Impairment of capital asset	-	-	(812,000)	-	(812,000)
Impairment of contract receivable	-	(674,035)	-	-	(674,035)
Stock-based compensation	-	-	-	(329,092)	(329,092)
Operating loss	(2,954,566)	(4,394,529)	(746,564)	(822,419)	(8,918,078)
Other income / (expense):					
Recovery of environmental cost	-	-	300,000	-	300,000
Interest income	-	2,210	7,700	-	9,910
Finance expenses	(50,815)	(379,508)	(52,060)	-	(482,383)
Loss of disposal on capital asset	-	(1,567)	-	-	(1,567)
Net loss and comprehensive loss	\$ (3,005,381)	\$ (4,773,394)	\$ (490,924)	\$ (822,419)	\$ (9,092,118)

Pond Technologies Holdings Inc.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019

23. SEGMENTED INFORMATION (Continued)

Included in revenues arising from Nutraceutical Products are revenues to the Company's two largest customers accounted for 31.3% (2018 - nil) of consolidated revenues for the year ended December 31, 2019. The top two customers contributed 10% or more to product revenues.

Included in revenues arising from Technology Services are revenues to the Company's two largest customer accounted for 13.1% (2018 – 38%) of consolidated revenues for the year ended December 31, 2019. The top customer contributed 10% or more to product revenues.

Major Customer Revenue (Twelve Months December 31, 2019)	Nutraceutical Products	Technology Services
Largest customer	\$ 1,151,088	\$ 737,595
Second largest customer	\$ 769,580	\$ 66,875

No other single customer contributed 10% or more to product revenues of the Company for the year ended December 31, 2019.

Consolidated Statement Of Loss & Comprehensive Loss	For The Year Ended December 31, 2018		
	Technology Services	Oil and Natural Gas	Total
Revenue technology	\$ 1,432,949	\$ -	\$ 1,432,949
Revenue oil	-	1,909,207	1,909,207
Revenue conventional natural gas	-	46,569	46,569
Revenue conventional natural gas liquids	-	151,349	151,349
	1,432,949	2,107,125	3,540,074
Direct costs and expenses technology	(1,237,471)	-	(1,237,471)
Royalties	-	(836,277)	(836,277)
Oil and conventional natural gas operating costs	-	(668,058)	(668,058)
Expenses which includes amortization & depletion	(4,949,999)	(517,010)	(5,467,009)
Operating profit (loss)	(4,754,521)	85,780	(4,668,741)
Other income (loss):			
Loss on disposal of capital asset	(162,093)	-	(162,093)
Interest income	49,029	-	49,029
Finance expense	(591,705)	-	(591,705)
Net (loss)/income and comprehensive (loss)/income	\$ (5,459,290)	\$ 85,780	\$ (5,373,510)

24. CAPITAL MANAGEMENT

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the acquisition and development of its business projects. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management considers the Company's capital structure to primarily consist of the components of shareholder's equity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year.

25. FINANCIAL INSTRUMENTS & RISK MANAGEMENT

Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and interest rate risk. These financial risks are managed by the Company under policies approved by the Board of Directors. The principal financial risks are actively managed by the Company's finance department. The primary risks that affect the Company are set out below and the risks have not changed during the reporting year. The list does not cover all risks to the Company, nor is there an assurance that the strategy of management to mitigate the risks is sufficient to eliminate the risk.

Credit risk

Credit risk arises from the probability that the counterparty will fail to perform its obligations. The Company is exposed to credit risk from its banks and receivables from its customers. The Company's cash and accounts receivables totals to \$1,477,215 (2018: \$2,958,989), representing the maximum exposure to credit risk from those financial assets.

The Company monitors its exposure to credit risk by ensuring all cash is maintained with large chartered Canadian banks. The Company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investment in lower risk deposits of these chartered banks.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. As at December 31, 2019, there are no receivables that are outstanding more than three months.

The Company holds a secured promissory note receivable in the amount of \$1,378,473 (2018 - \$1,000,137) from Stelco. The Company monitors the note receivable balance which matures on June 30, 2020 (Note 18) and has taken a provision against this loan in the amount of \$647,035.

The Company has a carrying amount of \$329,298 relating to receivables primarily from trade sales in the nutraceutical business. The Company monitors its exposure to credit risk by customer ensuring that amounts are paid under the terms of the invoice and the customer's credit worthiness.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through regular monitoring of forecasted and actual cash flows, review of available credit or financing alternatives and strategic planning on behalf of management in evaluating the cash requirements of the business.

The following are the undiscounted amounts and contractual maturities of the Company's loans payable and anticipated timing of settlements of its other financial liabilities as at December 31, 2019:

	< 1 year	1-2 years	>2 years
	\$	\$	\$
Accounts payable and accrued liabilities	1,679,613	-	-
Loans payable	264,007	2,843,247	-

25. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (Continued)

Interest rate risk

As at December 31, 2019, the Company does not have any variable rate debt. Management does not consider this to be a significant risk.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and conventional natural gas are impacted by not only the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. The nature of the Company's operations results in exposure to fluctuations in commodity prices. The Company's production is sold using "spot" pricing with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company currently has no commodity contracts outstanding at December 31, 2019.

Fair value

The fair value of a financial instrument is approximated by the consideration that would be agreed to in an arm's length transaction between willing parties and through appropriate valuation methods. The actual amount that could be realized in a current market exchange could be different than the estimated value.

The carrying amounts of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments. The fair value of the loans payable substantially approximates the carrying value due to the short-term maturities of these instruments.

The Company categorizes its financial assets and liabilities measured at fair value into three different levels depending on the observation of the inputs used in measurement. The three levels are defined as follows:

- i. Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.
- ii. Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- iii. Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

The estimated fair value of the financial instruments has been determined based on the Company's assessment of available market information and appropriate valuation methodologies. However, these estimates may not necessarily be indicative of the amounts that the Company could realize in a current market exchange. As at December 31, 2019, the Company did not have any financial assets or liabilities recorded at fair value. The Company employed a level 3 methodology in testing the oil and conventional natural gas property, plant and equipment for impairment (Note 10).

26. COMMITMENTS AND CONTINGENCIES

On January 30, 2018, concurrent with the completion of the Transaction described in Note 5, the Company and GRL entered into an Assignment Agreement, whereby the Company transferred all of its right, title and interest in and to and all burdens, obligations and liabilities in connection with a litigation matter, to GRL. GRL agreed to indemnify the Company from any potential liabilities that may arise from such litigation.

The Company is contingently liable with respect to litigation, claims and environmental matters that may arise from time to time, including those that could result in mandatory damages or other relief, which could result in significant expenditures. While the outcome of these matters cannot be predicted with certainty, in the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the financial position or results of operations of the Company. Any expected settlement of claims in excess of amounts recorded will be charged to operations as and when such determination is made.

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26. COMMITMENTS AND CONTINGENCIES (Continued)

The Company may have various other contractual obligations from time to time in the normal course of operations. Generally, these types of contracts can be cancelled with 30 days' notice. The Company has entered a premise lease with the following total minimum annual payment:

		Amount
2020	\$	85,248
2021 and 2022		52,000
	\$	137,248

27. SUBSEQUENT EVENTS

On January 24, 2020 the Company Issued 167,783 common shares as settlement for \$78,858 of advisory fees owed to Cross Pond Ventures LLC. The shares were issued at the TSXV closing trading price \$0.47 per share on January 23, 2020 and were approved by the TSXV on March 2, 2020.

On January 29, 2020 the Financial Industry Regulatory Authority approved the change in the Company's stock symbol on the OTC market. The Company's common shares began trading on the OTC market under the symbol PHNDF. The previous trading symbol was IOGIF.

On February 20, 2020 Pond received TSX acceptance of the Directors Deferred Share Unit Plan ("Plan"). The Plan was previously approved at Pond's Annual General and Special Meeting of shareholders. The number of shares reserved for issuance under the Plan at anytime shall not exceed 500,000 shares.

On March 23, 2020 the Company signed a non-exclusive licensing agreement with London based Remediate (UK) Ltd. Under the terms of the licensing agreement, Remediate will have the non-exclusive right to use Pond's patents and know how in the countries and principalities of continental Europe as well as the United Kingdom. As consideration for granting the license, Pond shall be paid a fee to be agreed upon, on a case by case basis, related to the separate agreements to be entered into between Remediate and the end users. In no event will the fee be less than \$500,000 per annum, payable quarterly, until December 31, 2021, and thereafter not less than \$2,000,000 per annum.

On March 31, 2020 the Company signed an amendment to its loan agreement with Crystal Wealth to defer \$56,683 of interest due on March 31, 2020 until the earlier of June 30, 2020 or the completion of a new share offering.

On April 29, 2020, the Company approved the grant of 795,000 stock options under its stock option plan to certain of its officers and employees. The options vest immediately, have an exercise price of \$0.25 per share, and expire 5 years from the date of grant.

On May 19, 2020 the Company announced that it had reached agreements with Cross Pond Ventures LLC, Georgian Villas Inc. (an entity Controlled by a director of Pond, Mr. Robert McLeese, Mr. Steve Martin (a former director and officer of Pond) and ExCap Advisors Inc., (a company owned by Mr. Kevin Andrade, former officer of and consultant to Pond) to have certain amounts owing to them under contractual agreements with Pond to be satisfied through the issuance of common shares in the capital of Pond.

Under the terms of the agreements and subject to TSXV approval: (1) Cross Pond will be issued 386,902 Shares as payment for \$85,118.46 of advisory fees owing under its Master Project Development Agreement with Pond, representing a deemed price per share of \$0.22; (2) Georgian Villas Inc. will be issued 259,152 Shares to satisfy \$57,013.49 of accrued interest on its \$2,000,000 principal amount secured convertible loan to Pond, representing a deemed price per share of \$0.22; (3) ExCap Advisors Inc. will be issued 149,277 shares in satisfaction of \$35,080 of consulting fees owing, representing a deemed price per share of \$0.235; and (4) Steven Martin will be issued 73,214 shares to satisfy \$16,839.25 owing pursuant to past services rendered to Pond, representing a deemed price per share of \$0.23.

27. SUBSEQUENT EVENTS (Continued)

COVID-19

The Company is dependent on its workforce, distributors and project engineering service providers to sell and deliver its products and services. Developments such as social distancing and shelter-in-place directives have impacted the Company's ability to deploy its workforce effectively. These same developments may affect the operations of the Company's suppliers as their own workforces and operations are disrupted by efforts to curtail the spread of this virus. The effectiveness of remote work environments and hosted services may also be constrained due to unprecedented levels of internet usage stemming from the COVID-19 outbreak. The Company's research and development activities may also be impacted by the COVID-19 outbreak as well as travel restrictions. While expected to be temporary, these disruptions may negatively impact the Company's sales, its results of operations, financial condition, and liquidity in 2020.

Global commodity prices have declined significantly due to a collapse in demand in combination with an oversupply of oil due to disputes between major oil producing countries. In response to weakening oil prices and the reluctance of third-party operators in the area to reduce processing/transportation fees in response to the current environment, on April 14, 2020 the operator of the Nisku Pool ("L2L Pool") shut-in production from its oil and conventional natural gas assets because continued production is uneconomic under the current commodity price environment.