BIONEUTRA GLOBAL CORPORATION

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BioNeutra Global Corporation

Opinion

We have audited the consolidated financial statements of BioNeutra Global Corporation and its subsidiaries, (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019 and 2018 and the consolidated statements of operations and comprehensive income (loss), changes in 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 2 in the consolidated financial statements, which indicates that the Company incurred a significant loss from operations during the year ended December 31, 2019 and, as of that date, the Company's working capital deficiency was $1,888,924. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, 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, but does not include the consolidated financial statements and our auditor's report thereon.

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 when it becomes available 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 the Management 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:

- 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Curtis Dorfman.

RSM Alberta LLP

Chartered Professional Accountants
June 15, 2020
Edmonton, Alberta

BIONEUTRA GLOBAL CORPORATION
Consolidated Statements of Financial Position
December 31, 2019 and 2018
(Expressed in Canadian Dollars)

		2019		2018
ASSETS				
Current Assets				
Cash and cash equivalents	$	**523,102**	$	1,497,580
Accounts receivable (Note 6)		**3,298,533**		4,543,507
Inventories (Note 7)		**14,809,220**		16,874,431
Prepaid expenses and deposits		**2,006,392**		262,862
		20,637,247		23,178,380
Investment		**-**		515,651
Property, plant and equipment (Note 8)		**12,260,270**		14,407,341
Intangible assets (Note 9)		**1,127,251**		1,885,191
	$	**34,024,768**	$	39,986,563
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**20,261,342**	$	12,316,469
Claim settlement (Note 20)		**694,064**		-
Accrual for lawsuit (Note 19)		**643,000**		-
Income taxes payable		**-**		120,985
Deferred revenue		**-**		5,427
Current portion of repayable government contribution (Note 12)		**31,250**		31,250
Current portion of mortgage payable (Note 13)		**896,515**		1,375,281
	$	**22,526,171**	$	13,849,412
Deferred income tax		**-**		422,900
Repayable government contribution (Note 12)		**62,500**		93,750
Mortgages payable (Note 13)		**6,683,615**		7,561,782
		29,272,286		21,927,844
SHAREHOLDERS' EQUITY				
Share capital (Note 14)		**7,551,438**		7,301,938
Warrants		**5,400**		358,038
Share-based compensation reserve		**177,013**		961,334
Contributed surplus		**1,142,359**		-
Accumulated other comprehensive income		**363,663**		1,481,486
Retained earnings (deficit)		**(4,487,391)**		7,955,923
		4,752,482		18,058,719
	$	**34,024,768**	$	39,986,563

Going Concern (Note 2)
Contingencies and Provisions (Note 19)
Subsequent Events (Note 21)

(signed) "Jianhua Zhu"
Director

(signed) "Jason Theiss"
Director

See accompanying notes to the consolidated financial statements

BIONEUTRA GLOBAL CORPORATION
Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

		2019		2018
Sales	$	37,700,841	$	37,717,111
Cost of sales		37,062,683		27,314,572
Gross profit		638,158		10,402,539
Expenses				
Salaries and benefits		2,983,664		2,433,916
General and administrative		1,941,650		1,157,190
Warehouse costs		1,292,326		1,128,610
Professional fees		1,108,604		685,932
Foreign exchange loss (gain)		1,056,752		(1,612,271)
Claim settlement (Note 20)		1,050,141		-
Bad debts		893,163		-
Sales and marketing		811,407		1,144,896
Amortization of intangible assets		746,434		818,466
Provision for lawsuit (Note 19)		643,000		-
Interest on mortgages payable		521,274		493,391
Research and development		440,352		476,726
Depreciation of property, plant and equipment		96,523		157,976
Interest and bank charges		74,987		70,493
		13,660,277		6,955,325
Income (loss) before other income (expenses) and income tax		(13,022,119)		3,447,214
Other income (expenses)				
Interest and other		1,794		8,584
Gain on extinguishment of liabilities of previously discounted operations		-		116,811
Income (loss) before income taxes		(13,020,325)		3,572,609
Income tax expense (recovery) (Note 10)				
Current		(154,111)		(74,015)
Deferred		(422,900)		543,610
		(577,011)		469,595
Net income (loss)		(12,443,314)		3,103,014
Items that will be classified subsequently to Profit and Loss				
Gain (loss) on translation to presentation currency		(1,117,823)		999,063
Comprehensive income (loss)		(13,561,137)		4,102,077
Earnings (loss) per share (Note 15)				
Basic	$	(0.27)	$	0.07
Diluted	$	(0.27)	$	0.07

See accompanying notes to the consolidated financial statements

BIONEUTRA GLOBAL CORPORATION
Consolidated Statements of Changes in Equity
For the Years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Share Capital (Note 14) Number	Amount	Warrants	Share-Based Compensation Reserve	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Equity
Balance, December 31, 2017	45,949,787	$7,301,938	$358,038	$961,334	$0	$482,423	$4,852,909	$13,956,642
Comprehensive income	-	-	-	-	-	999,063	-	999,063
Net income for the year	-	-	-	-	-	-	3,103,014	3,103,014
Balance, December 31, 2018	45,949,787	$7,301,938	$358,038	$961,334	$0	$1,481,486	$7,955,923	$18,058,719
Options expired	-	-	-	(784,321)	784,321	-	-	0
Warrants expired	-	-	(301,678)	-	301,678	-	-	0
Warrants issued	-	-	5,400	-	-	-	-	5,400
Warrants exercised	499,000	249,500	(56,360)	-	56,360	-	-	249,500
Comprehensive loss	-	-	-	-	-	(1,117,823)	-	(1,117,823)
Net loss for the year	-	-	-	-	-	-	(12,443,314)	(12,443,314)
Balance, December 31, 2019	46,448,787	$ 7,551,438	$ 5,400	$ 177,013	$ 1,142,359	$ 363,663	$ (4,487,391)	$ 4,752,482

See accompanying notes to the consolidated financial statements

BIONEUTRA GLOBAL CORPORATION
Consolidated Statements of Cash Flows
For the Years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
Cash Provided By (Used In):		
Operating Activities		
Net (loss) income	**(12,443,314)**	3,103,014
Interest and financial fee amortized	**521,274**	514,866
Items not affecting cash:		
Depreciation of property, plant and equipment	**1,578,478**	1,086,488
Amortization of intangible assets	**746,434**	818,466
Deferred income tax	**(422,900)**	543,610
Share-based compensation	**5,400**	-
Interest income on investment	**-**	(7,582)
Extinguishment of liabilities of previously discontinued operation	**-**	(105,986)
Change in non-cash working capital balances (Note 16)	**10,722,180**	(3,046,001)
Net cash flow used by operating activities	**707,552**	2,906,875
Investing Activities		
Purchase of property, plant and equipment	**(143,530)**	(770,649)
Purchase of intangible assets	**(93,873)**	(52,633)
Purchase of investment	**-**	(2,047,413)
Redemption of investment	**515,651**	2,047,413
Net cash flow used by investing activities	**278,248**	(823,282)
Financing Activities		
Proceeds from mortgages	**-**	376,648
Repayments of mortgages	**(1,375,281)**	(1,444,829)
Interest paid	**(502,926)**	(495,851)
Proceeds from share issuance	**249,500**	-
Repayment of government contribution	**(31,250)**	(31,250)
Repayment of capital lease	**-**	(49,818)
Net cash flow used by financing activities	**(1,659,957)**	(1,645,100)
Increase (decrease) in cash	**(674,157)**	438,493
Effect of foreign exchange	**(300,321)**	(326,602)
Cash and cash equivalents, beginning of year	**1,497,580**	1,385,689
Cash and cash equivalents, end of year	**523,102**	1,497,580
Cash and cash equivalents consist of:		
Cash and cash equivalents on deposit	**1,024,260**	1,586,242
Bank indebtedness	**(501,158)**	(88,662)
	$ 523,102	$ 1,497,580

See accompanying notes to the consolidated financial statements

1. Description of Business

BioNeutra Global Corporation (the "Company") was incorporated under the Alberta Business Corporations Act on March 8, 1996. Through its subsidiaries, the Company is involved in the research and development, production and commercialization of food ingredients for nutraceuticals, functional and mainstream foods, with a focus on oligosaccharides. The Company's registered office is located at 9608 – 25 Avenue, Edmonton, Alberta, T6N 1J4, Canada. The Company's common shares are listed on the TSX Venture Exchange under the symbol "BGA".

These consolidated financial statements were approved by the Board of Directors on June 15, 2020.

2. Going Concern Assumption

These consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business for the foreseeable future.

During the year ended 2019, the Company incurred a significant loss from operations. Several one time costs contributed to this loss including the bankruptcy of a major customer and the resulting write down of an accounts receivable, the settlement of litigation with a customer over a labelling issue, practical capacity at the Canadian manufacturing facility resulting in high production costs, and supply chain problems that caused a significant decline in the gross margin for 2019 when compared to historical standards. As a result, the company exited 2019 with a significantly weakened balance sheet.

The Company has historically relied on profitable operations and debt financing to fund its operating and capital expenditures, supplemented by some common share equity offerings and government grants. At December 31, 2019, the Company's working capital deficiency was ($1,888,924). The Company is reliant on the return to profitable operations, the continued support of its operating credit line lender (Note 5), and the continued support of its mortgage debt creditors more fully described in Note 13. The Company may attempt to improve liquidity by raising capital through a single or multiple equity offerings, but there is significant risk in the current market environment, including the influences of COVID-19 on the capital markets more fully described in Note 21, that funds may not be available to the extent they are required or at all.

The Company has undertaken changes to return its operations to profitability. This includes significant head count reductions, new senior management additions with significant experience in the Company's industrial sector, new independent board members, and a new operational focus prioritizing the Company's core strengths and most attractive growth opportunities. The Company has had recent discussions and at the current time continues to have full access to their credit facilities described in Note 5 and 13. This has included COVID-19 principal deferrals more fully described in Note 21, and a letter of offer to renew the line of credit more fully described in Note 5. While the Company is confident in the actions it has taken to restore profitability there is a significant risk in the current environment that its sales may be negatively impacted by the COVID-19 pandemic and recent regulatory pronouncements in the USA regarding fiber claims for the Company's products.

The above noted conditions indicate the existence of material uncertainties that may cast significant doubt regarding the Company's ability to continue as a going concern and otherwise execute on its business strategies. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

3. Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis unless mentioned otherwise in the accounting policies below.

c) Functional Currency

The functional currency of the Company is the Canadian dollar and the functional currency of the Company's subsidiaries is the U.S. dollar. The consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency.

d) Use of Estimates and Judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation are as follows:

Functional Currency

Management has made judgements to determine the functional currency for the Company and its subsidiaries. In making their judgement, management considered the primary economic environment in which each entity operates and determined the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The management determines the functional currency of the parent company based on the currency in which funds from financing activities are generated.

Accounts Receivable

The valuation of accounts receivable is based on management's evaluation of collectability and a loss allowance for simplified expected credit losses is recorded as necessary.

3. Basis of Presentation (Continued)

d) Use of Estimates and Judgements (Continued)

Inventories

The valuation of inventories and the estimated net realizable value is based on the most reliable information, such as the product life and shelf lives, the quantity on hand, the estimated sales volume prior to expiry, the estimated cost to rework inventory, and the physical location of inventory available at the time the estimates are made by management.

Property, Plant and Equipment

The valuation of property, plant and equipment is based on management's best estimate of the future recoverability of these assets. This is based on projected cash flows expected to be generated from the use of these assets over its estimated life. The amounts recorded for depreciation is based on management's best estimate of the useful lives of the assets.

Income Taxes

The amount recorded for deferred income taxes is based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on the probability that taxable profits will be available to offset against deductible temporary differences.

Intangible Assets

The valuation of intangible assets is based on management's best estimate of the future recoverability of these assets. This is based on projected cash flows expected to be generated from the use of these assets over its estimated life. The amounts recorded for amortization is based on management's best estimate of the useful lives of the assets.

Cash Generating Unit

Management has exercised judgement as to the Company's cash generating unit and the determination there is one cash generating unit.

Share Based Compensation

The valuation of stock options issued is based on management's best estimate of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relevant assumptions. Future volatility of the Company's share price is estimated based on the historical volatility of the Company's share price.

3. Basis of Presentation (Continued)

d) Use of Estimates and Judgements (Continued)

Contingencies and Provisions (Note 19)

Considerable judgement is used in measuring and recognizing provisions and the exposure to contingent liabilities. Judgement is necessary to determine the likelihood that a pending litigation or other claim will succeed, or a liability will arise and to quantify the possible range of the final settlement. In case of legal claims, the Company relies on its legal advisors to determine the likelihood of the outcome.

Segment Reporting

Considerable judgement is used in determining the chief operating decision-maker and identifying each operating segment of the Company.

Research and Development Costs

Considerable judgement is used to determine if costs are expensed or capitalized.

4. Summary of Significant Accounting Policies

Significant Accounting Policies

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements. These policies have been consistently applied unless otherwise stated.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries, BioNeutra North America Inc., BioNeutra International Limited, and BioNeutra Hong Kong Ltd.

All inter-company transactions and balances are eliminated on consolidation.

Recently Adopted Accounting Pronouncements

IFRS 16, Leases

IFRS 16 Leases was issued by the IASB in January 2016. The new standard replaces IAS 17 Leases and requires lessees to recognize all leases on the balance sheet. IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases. Short-term leases (up to 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements. IFRS 16 was adopted by the Company beginning January 1, 2019 on a modified retrospective basis from January 1 and 2018 comparatives are not restated. The Company believes that the adoption of this standard has not had a material impact in 2019.

4. Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

IFRIC 23, Uncertainty over Income Tax Treatments

This Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation was effective for annual reporting periods on or after January 1, 2019. The Interpretation requires:
(a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
(b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
(c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.
The Company believes that the adoption of this standard has not had a material impact in 2019.

Revenue Recognition

The Company recognizes net revenue when a performance obligation to a customer has been fulfilled by transferring control over the promised goods to the customer, generally at the time of shipping of inventory. The amount of revenue to be recognized is based on the consideration the Company expects to receive in exchange for its goods. If a contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price of each performance obligation.

The consideration the Company receives in exchange for its goods is only recognized to the extent it is highly probable that a significant reversal will not occur when the uncertainty surrounding any components of variable consideration is subsequently resolved. The most common and significant elements of variable consideration include returns, rebates and other price adjustments.

Government Grants

Government grants are recognized only when received or receivable and all the relevant terms of the grant agreement have been met. Government grants related to assets are recognized in the consolidated statements of financial position as a deduction from the carrying amount of the related asset. They are then recognized in profit or loss over the estimated useful life of the depreciable asset that the grants were used to acquire, as a deduction from the depreciation expense. Other government grants are recognized in profit or loss as other revenue. The Company records a contingent payable when grant revenue with a repayment provision is received and management assesses that a repayment is likely.

Inventories

Raw materials and finished goods are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method using the weighted average method which is updated regularly to reflect current conditions and approximate cost. The cost of finished goods inventory comprises raw materials, direct labour, other direct costs and related production overhead expenditure. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Finished goods are comprised of finished syrup and powder ready for sale.

(Expressed in Canadian Dollars)

4. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on deposit and bank indebtedness which form an integral part of the Company's cash management.

Property, Plant and Equipment

With the exception of land, property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses if any. Property, plant and equipment is not depreciated until the asset is put into use. Property, plant and equipment is depreciated over their estimated useful lives at the following rates and methods:

Lab equipment	20% declining balance method
Furniture and office equipment	20% declining balance method
Building	straight-line method over 25 years
Production line	20% declining balance method

All costs directly attributable to the acquisition and construction of the asset are capitalized to the carrying amount of the asset. Directly attributable costs include costs of employee benefits, costs of site preparation, installation and assembly costs, costs of testing and professional fees. Recognition of costs ceases when the item is in the condition necessary for it to be capable of operating in the manner intended by management.

Borrowing Costs

Borrowing costs attributable to the acquisition and construction of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Qualifying assets include the production line. All other borrowing costs are recognized as interest expense in the statement of operations and comprehensive income (loss) in the period in which they occur. The capitalization rate used is 0% of the total financing costs for the year ended December 31, 2019 (2018 – 20%) as the assets were ready for their intended use for the entire year in 2019 so interest costs are no longer capitalized.

Intangible Assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets with a definite life are amortized over their legal lives using the straight-line method and are assessed for possible impairment whenever events or changes in circumstances indicate that impairment is possible. Intangible assets are amortized over their estimated useful lives at the following rates and methods:

Patent	straight-line method over 10 years
Software	straight-line method over 10 years

Intangible assets with indefinite lives are not amortized but are tested for impairment annually. Indefinite life intangible assets are those for which there is no foreseeable limit to their useful economic life as they arise from contractual or other legal rights that can be renewed without significant cost and are the subject of continuous marketing support. Intangible assets with indefinite lives are comprised of trademarks.

4. Summary of Significant Accounting Policies (Continued)

Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets, comprised of property, plant and equipment and intangible assets with definite lives, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds its estimated recoverable amount. The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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 assessment of the time value of money and the risks specific to the assets. Impairment losses are recognized in net income.

Impairment losses recognized in prior years are 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 depreciation, if no impairment loss had been recognized.

Foreign Currency

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of operations.

The financial statements of the subsidiaries are translated from their functional currencies into Canadian dollars on consolidation as follows:

a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;

b) Income and expenses for each statement of operations are translated at the average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

c) Share capital for each statement of financial position presented is translated at historical rate; and

d) All resulting exchange differences are recognized in accumulated other comprehensive income.

On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange differences recorded in a separate component of equity is transferred and recognized in the statement of operations and comprehensive income (loss).

4. Summary of Significant Accounting Policies (Continued)

Income Taxes

Income tax expense comprises current and deferred taxes. Income tax expense is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity or other comprehensive income.

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

Deferred income taxes are recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry- forward of unused tax losses and unused tax credits can be utilized.

Deferred income taxes are not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Financial Instruments

Classifications and Measurement

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognized when they are extinguished.

Financial assets and liabilities are initially recognized at fair value adjusted by, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The exception is for trade receivables that do not contain a significant financing component, as defined by IFRS 15. These are measured at the transaction price. Measurement in subsequent periods depends on whether the financial instrument has been classified as “amortized cost”, “fair value through other comprehensive income” or “fair value through profit and loss”.

4. Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Classification and Measurement (Continued)

Financial assets are subsequently measured at amortized cost using the effective interest method of amortization when they are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets are measured at fair value through other comprehensive income for assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets are measured at fair value through profit or loss for financial assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

Financial liabilities are subsequently measured at amortized cost, except for financial liabilities measured at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Financial liabilities at fair value through profit or loss include derivatives that are liabilities.

The Company has designated cash and cash equivalents, accounts receivable and investment as “amortized cost” and accounts payable and accrued liabilities, claim settlement, repayable government contribution and mortgages payable as “amortized cost”.

Impairment of Financial Assets

The Company uses the simplified method for calculating impairment and recognizes expected credit losses as a loss allowance in the consolidated statement of financial position if they relate to a financial asset measured at amortized cost. The Company recognizes impairment and credit losses using the simplified method and credit losses are recorded as necessary. The Company recognizes expected credit loss for that financial instrument at an amount equal to a lifetime expected loss. The Company uses a combination of historical and forward-looking information to determine the appropriate expected credit loss. The carrying amount of these assets in the consolidated statement of financial position is stated net of any loss allowance.

Derecognition of Financial Instruments

Financial assets are derecognized when the Company transfers substantially all risks and rewards of ownership or the contractual rights to the cash flow expire. Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

4. Summary of Significant Accounting Policies (Continued)

Research and Development

Research and development expenditures are charged as an operating expense of the Company as incurred. Expenditures for development are capitalized and amortized only when the criteria for capitalization are met.

Scientific Research and Experimental Development Credits

Scientific research and experimental development credits are not recognized until there is reasonable assurance that the credits will be received. Credits received are recorded as a reduction of the related current period expense or assets acquired.

Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net profit attributable to common shareholders by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Share-Based Compensation

The Company has a share-based compensation plan, which is described in Note 14. Share-based compensation granted is accounted for using the fair value method. The fair value of the common share purchase option for employees is calculated at the date of grant and is expensed over the vesting period of those options. The fair value of the common share purchase option for non- employees is calculated at the date of performance completion. The fair value for awards with graded vesting is recognized over the vesting period of the tranche. The fair value of the common share purchase option is measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. In such cash, the Company uses the Black-Scholes model to calculate the fair value of stock options issued, which requires certain assumptions be made at the time the options are awarded, including the expected life of the option, the expected number of granted options that will vest, forfeitures and the expected future volatility of the stock. Any consideration received upon exercise of stock options is credited to share capital along with the amount previously recognized in share-based payment reserve.

4. Summary of Significant Accounting Policies (Continued)

Standards Issued but not yet Effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after December 31, 2019. Many are not applicable or do not have a significant impact to the Company and have been excluded from below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

The International Accounting Standards Board (IASB) has issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020.

The International Accounting Standards Board (IASB) has issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of ‘material’ and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

5. Line of Credit

The Company has a credit facility with a maximum funding limit of $2,000,000 to assist with working capital needs that is due on demand, bears interest at prime plus 1.50% per annum and is secured by a first charge on accounts receivable and inventories more fully described in Notes 6 and 7. The maximum funding limit is determined as the lesser of $2,000,000 or the Borrowing Base Calculation. The Borrowing Base Calculation is calculated based on the value of 90% of accounts that are insured by a third party and lagged up to 90 days, plus an additional amount of up to $500,000 for non-insured accounts aged up to 90 days. As of December 31, 2019, the Company has drawn $501,158 (2018 - $88,662) against this facility. This amount has been netted against the cash on the statement of financial position.

At December 31, 2019, the credit limit determined by the Borrowing Base Calculation was $962,210.

The facility has a covenant requiring debt service coverage of 120%. At December 31, 2019 the Company was not in compliance with this covenant.

During January and February 2020, the Company exceeded the credit limit established by the Borrowing Base Calculation. This default was remedied in March 2020.

The facility also has a covenant requiring audited financial statements to be delivered within 120 days of year end. The Company is not in compliance with this covenant. The Company expect this breach to be a one-time event due to the impact of COVID-19.

(Expressed in Canadian Dollars)

6. Accounts Receivable

	2019	2018
Trade receivables	**$ 4,143,920**	$ 4,493,308
Expected credit loss	**(904,154)**	-
Goods and Services Tax receivable	**58,767**	50,199
	$ 3,298,533	$ 4,543,507

The trade receivables have been pledged as security for the credit facility more fully described in Note 5.

7. Inventories

	2019	2018
Raw materials	**$ 659,846**	$ 324,205
Work in progress	**110,800**	252,159
Finished goods	**14,038,574**	16,298,067
	$ 14,809,220	$ 16,874,431

Inventories recognized as cost of sales during the year is $37,062,683 (2018 - $ 27,314,572) which included total impairment charges of $7,169,509 (2018 - $2,106,699). This includes a write down of finished goods in the amount of $5,295,574 (2018 - $2,106,699) for items that were not in saleable condition and an impairment loss of $1,873,935 (2018 - $nil)for Canadian manufactured products which had a cost in excess of net realizable value as the Canadian plant was not operated at normal capacity in 2019.

The inventory has been pledged a security for the credit facility more fully described in Note 5.

(Expressed in Canadian Dollars)

8. Property, Plant and Equipment

Cost

	Balance at January 1, 2018	Additions	Foreign Exchange Movement	**Balance at December 31, 2018**	Additions	Foreign Exchange Movement	**Balance at December 31, 2019**
Lab equipment	$ 104,362	$ 8,147	$ 9,011	**$ 121,520**	$ 3,499	$ (5,901)	**$ 119,118**
Furniture and office equipment	153,161	44,602	15,854	**213,617**	16,019	(10,603)	**219,033**
Building	6,077,595	114,412	537,514	**6,729,521**	34,348	(323,355)	**6,440,514**
Land	1,507,448	-	131,819	**1,639,267**	-	(78,587)	**1,560,680**
Production line	6,474,728	603,427	598,135	**7,676,290**	89,664	(370,113)	**7,395,841**
	$ 14,317,294	$ 770,588	$ 1,292,333	**$ 16,380,215**	$ 143,530	$ (788,559)	**$ 15,735,186**

Accumulated Depreciation

	Balance at January 1, 2018	Additions	Foreign Exchange Movement	**Balance at December 31, 2018**	Additions	Foreign Exchange Movement	**Balance at December 31, 2019**
Lab equipment	$ 50,128	$ 10,944	$ 5,939	**$ 67,011**	$ 9,919	$ (2,410)	**$ 74,520**
Furniture and office equipment	65,493	22,467	7,051	**95,011**	24,245	(4,444)	**114,812**
Building	605,431	260,961	61,161	**927,553**	261,661	(49,168)	**1,140,046**
Production line	-	826,515	56,784	**883,299**	1,282,653	(20,414)	**2,145,538**
	$ 721,052	$ 1,120,887	$ 130,935	**$ 1,972,874**	$ 1,578,478	$ (76,436)	**$ 3,474,916**

Net Book Value

	Balance at December 31, 2018	**Balance at December 31, 2019**
Lab Equipment	$ 54,509	**$ 44,598**
Furniture and Office Equipment	$ 118,606	**$ 104,221**
Building	$ 5,801,968	**$ 5,300,468**
Land	$ 1,639,267	**$ 1,560,680**
Production line	$ 6,792,991	**$ 5,250,303**
	$ 14,407,341	**$ 12,260,270**

During the year ended December 31 2019, the Company recognized government grants of $nil (2018 - $85,265) as a reduction to the cost of property, plant and equipment acquired during the year. During the year ended December 31, 2019, the Company capitalized borrowing costs of $nil (2018 - $32,588) as an addition to the cost of production line. Depreciation of $99,260 (2018 - $946,629) is included in the year-end inventory.

(Expressed in Canadian Dollars)

9. Intangible Assets

Cost

	Balance at January 1, 2018	Additions	Foreign Exchange Movement	**Balance at December 31, 2018**	Additions	Foreign Exchange Movement	**Balance at December 31, 2019**
Patent	$ 4,296,763	$ -	$ 375,731	**$ 4,672,494**	$ -	$ (224,000)	**$ 4,448,494**
Software	527,554	-	46,132	**573,686**	-	(27,503)	**546,183**
Trademarks	104,141	52,633	18,306	**175,080**	93,873	(14,499)	**254,454**
	$ 4,928,458	$ 52,633	$ 440,169	**$ 5,421,260**	$ 93,873	$ (266,002)	**$ 5,249,131**

Accumulated Depreciation

	Balance at January 1, 2018	Additions	Foreign Exchange Movement	**Balance at December 31, 2018**	Additions	Foreign Exchange Movement	**Balance at December 31, 2019**
Patent	$ 2,353,448	$ 664,700	$ 349,288	**$ 3,367,436**	$ 605,362	$ (66,045)	**$ 3,906,753**
Software	101,357	54,505	12,771	**168,633**	54,505	(8,011)	**215,127**
Trademarks	-	-	-	**-**	-	-	**-**
	$ 2,454,805	$ 719,205	$ 362,059	**$ 3,536,069**	$ 659,867	$ (74,056)	**$ 4,121,880**

Net Book Value

	Balance at December 31, 2018	**Balance at December 31, 2019**
Patent	$ 1,305,058	**$ 541,741**
Software	$ 405,053	**$ 331,056**
Trademarks	$ 175,080	**$ 254,454**
	$ 1,885,191	**$ 1,127,251**

(Expressed in Canadian Dollars)

10. Income Taxes

The income tax provision reported differs from the amount computed by applying the combined Canadian federal and provincial rate to income before income taxes. The reasons for the difference and the related tax effects are as follows:

	2019	2018
Income before income taxes	**(13,010,651)**	3,572,609
Expected rate	**26.5%**	27%
Expected tax expense	**(3,447,823)**	964,604
Tax affected adjustments:		
Deductible expenses for tax in excess of amortization	**(97,071)**	(760,868)
Other temporary differences	**(317,981)**	-
Permanent differences	**421,642**	(16,243)
Foreign tax differential	**(14,128)**	(21,571)
Impact of changes in tax rate	**264,073**	-
Net effect of unrealized non-capital losses	**2,320,836**	-
C	**293,441**	303,673
Income tax expense (recovery)	**$ (577,011)**	$ 469,595

As at December 31, 2019, the Company had Canadian tax losses with a tax benefit of $2,731,859 (2018 - $564,198). The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income that can be reduced by the tax losses. These losses may be carried forward and expire as follows:

2031	$ 1,240,137
2033	30,331
2039	10,607,178
	$ 11,877,646

The tax effects of temporary differences that give rise to the Company's deferred income tax assets (liabilities) are as follows:

	2019	2018
Loss carry forwards	**$ 2,731,859**	$ 564,198
Research and development credits and expenditures carried forward	**584,037**	-
Excess (deficiency) of tax basis over accounting basis: Property, plant and equipment and intangible assets	**(995,060)**	(987,098)
	$ 2,320,836	$ (422,900)
Less: deferred tax asset not recognized	**(2,320,836)**	**-**
Deferred income tax assets (liabilities)	**-**	$ (422,900)

Deferred income tax assets have not been recognized as the Company is uncertain as to utilization of the loss carry forwards to offset their future taxable income.

(Expressed in Canadian Dollars)

11. Related Party Transactions

Key management includes all persons named or performing the duties of Chief Executive Officer, Chief Financial Officer, President, Vice-President and Directors of the Company. The compensation paid to key management for services is shown below:

	2019	2018
Salaries	**$ 1,340,233**	$ 1,020,276
Post-employment benefits	**-**	24,000
Directors fees	**103,600**	79,500
Consulting fees paid to a company owned by a former board member and executive chairman	**64,046**	-
Consulting fees paid to a company associated with a board member	**17,010**	-

12. Repayable Government Contribution

During fiscal 2010, the Company executed an agreement for funding with the Canadian federal government. The funding is a repayable contribution to fund activity for a period from November 24, 2009 to December 31, 2014. As at December 31, 2014, the Company has received $250,000 under the agreement. The Company is required to repay the contributions as follows with final payment due February 15, 2022:

2020	31,250
2021	31,250
2022	31,250
	93,750
Less current portion	(31,250)
	$ 62,500

13. Mortgages Payable

	2019	2018
(i) Mortgage bearing interest at the lender's floating base rate, due November 15, 2040	**$ 6,711,190**	$ 7,032,046
(ii) Mortgage bearing interest at 5.00% per annum for $1,000,000 and 0% per annum for $90,000, with final instalment of $500,000 due July 31, 2019	**-**	500,000
(iii) Mortgage bearing interest at 3.83% per annum, due January 1, 2022	**939,648**	1,494,073
	7,650,838	9,026,119
Less unamortized financing fees	**(70,708)**	(89,056)
	7,580,130	8,937,063
Current portion	**(896,515)**	(1,375,281)
	$ 6,683,615	$ 7,561,782

(Expressed in Canadian Dollars)

13. Mortgages Payable (Continued)

(i) On April 22, 2015, the lender had provided the Company with a mortgage up to a maximum of $8,300,000 to purchase land and building to be used as their plant and office. On November 24, 2017, the mortgage agreement was amended to a maximum of $7,600,000. The mortgage bears interest at the lender's floating base rate with monthly principal repayment of $26,670 plus interest on April 15, 2017, $27,670 plus interest starting on May 15, 2017 and $26,738 plus interest starting on December 15, 2017 and is secured by the land and building with a net book value of $6,861,148, and a general security agreement. As at December 31, 2019, $7,600,000 has been drawn on the mortgage, which bears interest at a floating base rate which is currently 6.05% (2018 – 6.05%).

(ii) On November 12, 2015, the Company also obtained a mortgage with credit limit of $2,736,000, bearing interest of 3.83% per annum, with monthly blended instalments of $50,097 starting February 1, 2017 with maturity date of January 1, 2022, however at Company estimates it will be repaid by August 1, 2021. This loan is secured by third charge on the land and building, second charge on accounts receivable and inventories and first charge on the equipment. The Company only drew this loan to $2,500,085. This loan has a covenant requiring the completion of audited financial statements within 120 days of year end. The Company is not in compliance with this covenant but expects this breach be to be a one-time event due to impact of COVID-19.

Principal repayment terms are approximately:

2020	896,515
2021	684,845
2022	320,856
2023	320,856
2024	320,856
2025 and thereafter	5,106,910
	$ 7,650,838

The activity related to mortgages payable is as follows:

	2019	2018
Balance at the beginning of the year	**$ 8,937,063**	$ 10,007,585
Proceeds from mortgages	**-**	376,648
Repayment of mortgages	**(1,375,281)**	(1,466,185)
Financing fees paid	**(5,048)**	-
Amortization of financing fees	**23,396**	19,015
	$ 7,580,130	$ 8,937,063

(Expressed in Canadian Dollars)

14. Share Capital

The Company is authorized to issue:
Unlimited common voting shares and
Unlimited redeemable, retractable, non-voting preferred shares

As of December 31, 2019, the Company has 46,448,787 (2018 – 45,949,787) common shares issued and outstanding.

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares and determine the designation, rights and privileges attached to each series of shares.

Balance, December 31, 2018 and 2017	45,949,787
Warrant exercised	499,000
Balance, December 31, 2019	46,448,787

Stock Options

The Company has a stock option plan whereby the maximum number of shares reserved for issuance shall not exceed 10% of the issued and outstanding common shares of the Company. Stock options may be granted to directors, employees, management company employees and consultants. The exercise price of the options granted shall be determined by the Board of Directors in accordance with the policies of the TSX Venture Exchange. No single participant may be issued options representing greater than 5% of the number of outstanding shares in any 12 month period unless the Company has obtained disinterested shareholder approval. The number of shares reserved for issuance to any one consultant of the Company may not exceed 2% of the number of outstanding shares in any 12 month period. The aggregate number of options granted to persons employed in investor relation activities must not exceed 1% of the outstanding shares in any 12 month period. Options issued to consultants providing investor relations services must vest in stages over 12 months with no more than one quarter of the options vesting in any three month period. The exercise price per common share for an option shall not be less than the greater of the closing market price of the common shares on (i) the trading day prior to the date of the grant of the option and (ii) the date of the grant of the option. Every option shall have a term not exceeding and shall therefore expire no later than 10 years after the date of grant. Terms of vesting of the options, the eligibility of directors, officers, employees, management company employees and consultants to receive options and the number of options issued to each participant shall be determined at the discretion of the Board of Directors, subject to the policies of the TSX Venture Exchange.

	Number of Options	Exercise Price
Balance, December 31, 2017	3,085,000	0.44
Options granted	-	-
Options expired	(415,000)	0.46
Balance, December 31, 2018	2,670,000	0.43
Options granted	-	-
Options expired	(2,280,000)	0.42
Balance, December 31, 2019	$ **390,000**	$ **0.55**

(Expressed in Canadian Dollars)

14. Share Capital (Continued)

The following table summarizes information on stock options outstanding and exercisable at December 31, 2019 and 2018:

	Exercise Price	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
2018	0.40	2,050,000	2,050,000	0.12
	0.55	620,000	620,000	1.35
Total		2,670,000	2,670,000	
2019	0.55	620,000	620,000	1.35

Warrants

The Company uses the Black-Scholes option pricing model to estimate the fair value of the share purchase warrants. The warrants were issued to a company owned by a former board member. The following assumptions were used to estimate the fair value of warrants issued during the year ended December 31, 2019 when the shares were trading at $0.30:

Annualized volatility	19.00%
Risk-free interest rate	1.34%
Expected life of	5 years
Dividend rate	0.00%
Fair value per stock option	$0.027

The activity related to warrants is as follows:

	Number of Warrants	Exercise Price
Balance, December 31, 2017	3,170,000	$ 0.50
Balance, December 31, 2018	**3,170,000**	**$ 0.50**

	Number of Warrants	Exercise Price
Balance, December 31, 2018	3,170,000	$ 0.50
Warrants issued	200,000	0.40
Warrants exercised	(499,000)	0.50
Warrants expired	(2,671,000)	0.50
Balance, December 31, 2019	**200,000**	**$ 0.40**

The following table summarizes information on warrants outstanding and exercisable at December 31, 2019 and 2018:

	Exercise Price	Number	Number	Weighted Average
2018	0.50	3,170,000	3,170,000	0.23
2019	0.40	200,000	200,000	4.75

The 200,000 warrants issued in 2019 were in relation to the acquisition of BioNeutra Hong Kong Inc., a shell company.

(Expressed in Canadian Dollars)

15. Earnings (Loss) per Share

The basic earnings (loss) per share is based on the weighted average number of common shares outstanding for the year ended December 31, 2019 of 46,448,787 (2018 – 45,949,787). The diluted earnings (loss) per share is based on the weighted average number of common shares outstanding for year ended December 31, 2019 of 46,448,787 (2018 – 46,361,321) taking into effect all potentially dilutive securities. The effects of potentially dilutive instruments on the loss per shares at December 31, 2019 are anti-dilutive and therefore have been excluded from the calculation of diluted loss per share.

16. Changes in Non-Cash Working Capital Balance

		2019		2018
Accounts receivable	$	**1,244,974**	$	(1,188,698)
Prepaid expense and deposits		**(1,743,530)**		(243,058)
Inventories		**2,065,211**		(6,525,584)
Accounts payable and accrued liabilities		**7,944,873**		4,986,315
Claim settlement		**694,064**		-
Income taxes payable		**(120,985)**		(80,403)
Accrual for lawsuit		**643,000**		
Deferred revenue		**(5,427)**		5,427
	$	**10,722,180**	$	(3,046,001)

The Company previously presented inventory write down and recoveries as a separate line item in the statements of cash flows. However, management considers it to be more relevant to present these items as part of change in non-cash working capital. Prior year comparatives have be reclassified within operating activities by reclassifying $2,106,699 of inventory write down and $1,483,670 within change in non-cash working capital. The total cash provided by operating activities has not changed as a result of the reclassification.

17. Segment Information

The Company's operations are limited to a single industry segment, being manufacturing and trading of products. The Company operates in Canada while generating sales revenue from various countries internationally. Revenue from customers and distributors by country/geographic areas are as follows:

		2019		2018
United States	$	**28,301,594**	$	28,786,328
Canada		**6,416,444**		6,728,814
European Union		**2,779,282**		2,025,181
Australia and New Zealand		**145,820**		105,730
Others		**57,700**		71,058
	$	**37,700,840**	$	37,717,111

(Expressed in Canadian Dollars)

17. Segment Information (Continued)

Wholesale:		**2019**		2018
Basic powder	**$**	**4,400,223**	$	8,573,322
Basic syrup		**22,654,557**		20,002,223
DP3 powder		**87,712**		61,661
DP3 syrup		**1,032,592**		4,372,962
Organic powder		**2,043,887**		2,753,072
Organic syrup		**6,147,086**		1,821,824
Tariff		**1,167,148**		-
Total revenue from wholesale	**$**	**37,533,205**	$	37,585,064

Sales to top four major customers represent 51% of the Company's total sales for the year ended 2019 (2018 – 55% from four customers). A reconciliation of the total revenue reported by product type and channel is as follows:

Wholesale:		**2019**		2018
Basic powder	**$**	**4,400,223**	$	8,573,322
Basic syrup		**22,654,557**		20,002,223
DP3 powder		**87,712**		61,661
DP3 syrup		**1,032,592**		4,372,962
Organic powder		**2,043,887**		2,753,072
Organic syrup		**6,147,086**		1,821,824
Tariff		**1,167,148**		-
Total revenue from wholesale	**$**	**37,533,205**	$	37,585,064
Retail:				
Powder and syrup		**167,635**		132,047
	$	**37,700,840**	$	37,717,111

The Company's non-current assets are located in Canada. The Company's expenses, assets and liabilities are not allocated to reportable segments with the exception of inventories. The Company's inventories are located in the following country/geographic areas:

		2019		2018
United States	**$**	**8,922,630**	$	10,535,398
Canada		**4,266,691**		4,403,511
Europe		**1,410,273**		1,579,350
Australia and New Zealand		**156,330**		356,172
India		**53,296**		-
	$	**14,809,220**	$	16,874,431

(Expressed in Canadian Dollars)

18. Financial Instruments and Risk Management

Fair Value of Financial Instruments

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As at December 31, 2019, no financial instruments are measured at fair value. All financial instruments are measured at amortized cost using the effective interest rate method. The carrying amounts and fair values of the Company's financial instruments are presented in the table below:

	2019			2018		
	Carrying Amount		**Fair Value**	Carrying Amount		Fair Value
Amortized cost:						
Cash	523,102	(A)	523,102	1,497,580	(A)	1,497,580
Accounts receivable	3,298,533	(A)	3,298,533	4,543,507	(A)	4,543,507
Investment	-	(A)	-	515,651	(A)	515,651
Accounts payable and accrued liabilities	20,261,342	(A)	20,261,342	12,316,469	(A)	12,316,469
Claim settlement	694,064	(A)	694,064	-	(A)	-
Repayable government contribution	93,750	(B)	n/a	125,000	(B)	n/a
Mortgages payable	7,580,130	(C)	7,580,130	8,937,063	(C)	9,010,723

(A) The fair values of cash, accounts receivable, investment, accounts payable and accrued liabilities, and claim settlement approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

(B) The fair value of repayable government contribution cannot be determined as there is no market for financial instruments which bear no interest.

(C) The fair value of mortgages payable is determined by discounting the future contractual cash flows under the current financing arrangements at a discount rate that represents an approximation to the borrowing rates presently available to the Company for debts with similar terms to maturity. The fair value of mortgages payable is measured at fair value-Level 2.

18. Financial Instruments and Risk Management (Continued)

Financial Risk Management

The Company's activities are exposed to a variety of financial risks: credit risk, concentration of risk, foreign currency risk, interest rate risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

Liquidity Risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligations or raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows. As at December 31, 2019, the Company was holding net cash of $523,102 (2018 - $1,497,580), accounts receivable of $3,298,533 (2018 - $4,543,507) and had a working deficiency of $1,928,672 (2018 - working capital of $9,328,968) (see Note 2 - Going Concern). Non-derivative financial liabilities of $22,526,172 (2018 -$13,849,412) will be settled within one year.

Credit Risk

The Company's exposure to credit risk that relates to cash and accounts receivable arises from the possibility that the third party does not satisfy its contractual obligations. The Company minimizes its exposure to credit risk by keeping the majority of its cash with major chartered banks, reviewing new customers' credit history before extending credit, conducting regular reviews of its existing customers' credit performance and insuring the receivable balances to the extent possible with a third-party insurance company. The trade receivables are generally due for settlement within 60 days subsequent to the sales activities. An allowance for doubtful accounts is established based upon Expected Credit Loss Model. The Company's maximum exposure to credit risk is equal to the total value of the financial assets. There is no significant amount considered past due or impaired as at December 31, 2019 other than a single account which has a provision for loss established.

Concentration of Risk

The Company is exposed to credit risk on the accounts receivable from its customers. As at December 31, 2019, approximately 43% (2018 – 46% from four customers) of the trade accounts receivable balance is owed from two customers. The Company minimizes its exposure to the concentration of risk by developing a larger client base.

The Company obtains inventory from companies in Asia and is dependent on them to supply substantially all its inventory for resale. Should these suppliers substantially change their dealings with the Company, management is of the opinion that continued viable operations could be maintained through obtaining inventory from other manufacturers and the continued ramp up of its own

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of a change in foreign exchange rates. The Company is exposed to foreign currency risk on cash, accounts receivable and accounts payable denominated in U.S. dollars and accounts receivable denominated in Euro. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

18. Financial Instruments and Risk Management (Continued)

Sensitivity Analysis

As a result of the Company's assets and liabilities being denominated in the U.S. dollar, which is different to the presentation currency of the Company, the profit or loss and equity of the Company could be affected by the movements between the functional currency and the presentation currency. The table below indicates the foreign currency to which the Company has exposure as at December 31, 2019 and 2018 in Canadian dollar terms. The table also illustrates the potential impact to the Company's net equity as at December 31, 2019 and 2018 if the Company's presentation currency had strengthened or weakened by 5% in relation to the U.S. dollar, with all other variables held constant. In practice, the actual result may differ materially from this sensitivity analysis.

	Total Exposure		Impact on Net Equity		Impact on Net Income	
	2019	2018	2019	2018	2019	2018
U.S dollar	**$ 4,964,765**	$ 18,058,719	**$ 472,510**	$ 903,875	**$ 472,510**	$ 903,875
As a % of net equity	**190.53%**	100.10%	**9.52%**	5.01%		
As a % of net income					**-4%**	29%
As a % of comprehensive income					**-3%**	22%

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate price risk on its mortgages payable which bears a fixed interest rate, and interest rate cash flow risk on its floating rate line of credit and mortgages payable. A one-percent (1%) increase or decrease in interest rates would not have a material effect on the Company's operating results.

Capital Management

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include the continuing operations of the business. The Company includes shareholders' equity of $4,752,481 (2018 - $18,058,719) and mortgages payable of $7,580,130 (2018 - $8,937,063) in the definition of capital.

In managing capital, the Company estimates its future cash requirements by preparing a budget. The budget establishes the activities for the upcoming year and estimates the costs associated with these activities.

Historically, funding for the Company's plan was primarily managed through the cash generated from operations and through obtaining debt financing. There are no assurances that funds will be made available to the Company when required.

The Company is subject to debt covenants more fully described in Note 5 and Note 13.

19. Contingencies and Provisions

a) Vita US Inc. has filed an originating application against the Company seeking the following:

- A declaration that agency agreements between the parties are binding upon BioNeutra;
- An order requiring the Company to disclose all records they have with their dealings with leads provided to them by Vita US Inc.;
- Costs of the application; and
- Such other relief as the court deems just

No amount has been accrued in the Company's consolidated financial statements as the outcome of this matter cannot be determined and the amount of the loss cannot be readily determined. The total amount of the claim is $75,000.

b) A claim has been made by Mohammad Hassan Qureshi and Pak-Alberta Consultant Inc. as the plaintiff, against BioNeutra North America Inc. The action was filed March 17, 2017 seeking damages of $670,000. The company has accrued a provision of $643,000 for this potential liability. The Company has filed a Statement of Defense and a counterclaim in this matter. The counterclaim was filed for amounts totalling $2,100,000 for losses suffered because of various actions undertaken by the plaintiffs. No amount has been accrued in the Company’s consolidated financial statements for the counterclaim, however the amount of the damage award, if any, on the counterclaim would be offset against the amount of a damage award, if any, to the plaintiffs.

20. Claim Settlement

A claim was made by one customer, seeking for various compensations and damages resulting from alleged mislabeling caused by the Company. The claim was settled in 2019 and the Company agree to pay $750,000 USD, payable monthly based on a percentage of sales derived from that customer. At December 31, 2019, the balance outstanding is $534,388 USD and the Company estimates this liability will be fully repaid in the second quarter of 2020.

21. Subsequent Events

a) Subsequent to the year end, the Company renegotiated the terms of mortgage payable on its land and building. The mortgage holder has agreed to allow interest only payments for the months of May 2020, June 2020, and July 2020 and to extend the end date of the mortgage to July 15, 2043. This will result in lower repayments of $23,929 plus interest commencing August 15, 2020 versus the current repayment of $26,738 plus interest.

b) Subsequent to the year end, the Company renegotiated the terms of the mortgage payable on its manufacturing equipment. The mortgage holder has agreed to allow interest only payments for six months commencing June 1, 2020 with principal and interest payments recommencing on December 1, 2020. The ending amortization date was also extended to July 1, 2022 resulting in a monthly payment of $36,289, a reduction from the current repayment of $50,097.

21. Subsequent Events (Continued)

c) Early in 2020, the global economy was severely impacted by the COVID-19 pandemic. The Company generates most of its sales in the United States, the country most severely impacted by COVID-19 in terms of confirmed cases and deaths. The Company has been able to continue all of its operations to date and introduced changes to ensure the operations are maintained while ensuring the safety of its employees and all key stakeholders. The Company is however unable to determine the impact, if any, that the COVID-19 may have on its operations and profitability in 2020 and beyond. The Company also expects that the negative impact of COVID-19 on the capital markets will make the option of raising equity financing difficult should the Company wish to pursue this option.