Appulse Corporation

Consolidated Financial Statements

December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of Appulse Corporation:

Opinion

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

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

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 Corporation 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.

Other Matter

The consolidated financial statements of the Corporation for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 17, 2019.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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 Brad Frampton.

Calgary, Alberta

MNP LLP

April 22, 2020

Chartered Professional Accountants

Appulse Corporation
Consolidated Statements of Financial Position
As at December 31,
(amounts in Canadian dollars)

	Notes	2019	2018
Assets			
Current assets			
Cash		$ 173,195	$ 13,505
Accounts receivable	4(c)	1,836,862	1,646,187
Inventory	6	5,418,987	5,035,774
Prepaid expenses and deposits		63,380	64,488
Total current assets		7,492,424	6,759,954
Property and equipment	7(a)	763,080	705,294
Right-of-use asset	7(b)	1,363,188	-
Deferred tax assets	9(b)	-	35,428
Total assets		$ 9,618,692	$ 7,500,676
Liabilities			
Current liabilities			
Bank indebtedness	4(d), 10	$ 1,025,599	$ 1,246,542
Accounts payable and accrued liabilities	4(d), 12	2,284,691	2,510,659
Customer deposits	8	469,930	271,856
Current portion of lease obligations	4(d), 11	276,306	13,617
Total current liabilities		4,056,526	4,042,674
Lease obligations	4(d), 11	1,165,585	18,490
Total liabilities		5,222,111	4,061,164
Equity			
Share capital	13	2,150,522	2,064,481
Contributed surplus		467,458	455,108
Retained earnings		1,778,601	919,923
Total equity		4,396,581	3,439,512
Total liabilities and equity		$ 9,618,692	$ 7,500,676
Subsequent event	20		

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors,

"Robert D. Richards" (signed), Director

"Douglas A. Baird" (signed), Director

Appulse Corporation
Consolidated Statements of Income and Comprehensive Income
Years ended December 31,
(amounts in Canadian dollars)

	Notes	2019	2018
Revenues			
Service and parts	8, 16	$ 8,284,681	$ 7,546,285
Machine sales	8, 16	2,368,808	1,932,104
Rental	8, 16	441,199	270,302
		11,094,688	9,748,691
Cost of sales	6, 12, 15	7,753,352	7,276,368
Gross margin		3,341,336	2,472,323
Expenses			
General and administrative	4(c), 12, 14, 15	1,854,460	1,853,369
Stock-based compensation	17(b)	28,800	26,188
Depreciation	7(a)(b)	489,746	219,245
		2,373,006	2,098,802
Income before the following:		968,330	373,521
Finance expenses	18	(150,834)	(67,239)
Foreign exchange gain (loss)		76,610	(72,868)
Income before taxes		894,106	233,414
Deferred tax expense	9(a)	(35,428)	(65,849)
Net income and comprehensive income		$ 858,678	$ 167,565
Income per share, basic and diluted	19	$ .06	$ .01

See accompanying notes to the consolidated financial statements.

Appulse Corporation

Consolidated Statements of Changes in Equity

(amounts in Canadian dollars)

	Notes	Number of Common Shares	Common Share Capital Stated Value	Contributed Surplus	Retained Earnings	Total Equity
Balance at December 31, 2017		13,182,697	$ 2,006,453	$ 457,698	$ 752,358	$ 3,216,509
Stock options exercised	13(b), 7(a)	225,000	58,028	(28,778)	-	29,250
Stock-based compensation	17(b)	-	-	26,188	-	26,188
Net income and comprehensive income for the year		-	-	-	167,565	167,565
Balance at December 31, 2018		13,407,697	2,064,481	455,108	919,923	3,439,512
Stock options exercised	13(b), 7(a)	235,000	39,950	(16,450)	-	23,500
Issued pursuant to amalgamation agreement	13(b)	230,453	46,091	-	-	46,091
Stock-based compensation	17(b)	-	-	28,800	-	28,800
Net income and comprehensive income for the year		-	-	-	858,678	858,678
Balance at December 31, 2019		13,873,150	$ 2,150,522	$ 467,458	$ 1,778,601	$ 4,396,581

See accompanying notes to the consolidated financial statements.

Appulse Corporation
Consolidated Statements of Cash Flows
Years ended December 31,
(amounts in Canadian dollars)

	Notes	2019	2018
Cash provided by (used in):			
Cash flows from operating activities			
Income for the year		$ 858,678	$ 167,565
Adjustments for:			
Stock-based compensation	17(b)	28,800	26,188
Depreciation	7(a)(b)	489,746	219,245
Accretion (lease liability)	11	82,791	-
Deferred tax expense	9(a)	35,428	65,849
Other non-cash expenses		38,581	-
		1,534,024	478,847
Changes in non-cash working capital	5	(600,674)	(727,698)
Net cash from (used in) operating activities		933,350	(248,851)
Cash flows from investing activities			
Additions to property and equipment	7	(305,598)	(115,735)
Proceeds from disposal of property and equipment		53,578	5,398
Net cash used in investing activities		(252,020)	(110,337)
Cash flows from financing activities			
Repayment of (proceeds from) bank indebtedness, net		(191,380)	239,048
Proceeds from evergreen line of bank indebtedness		-	45,117
Repayment of evergreen line of bank indebtedness		(29,563)	(55,679)
Repayment of lease obligations		(365,706)	(12,418)
Proceeds from lease		33,999	-
Proceeds from exercise of stock options	13(b)	23,500	29,250
Proceeds from amalgamation		7,510	-
Net cash (from) used in financing activities		(521,640)	245,318
Change in cash		159,690	(113,870)
Cash, beginning of year		13,505	127,375
Cash, end of year		$ 173,195	$ 13,505

Supplemental cash flow information (note 5)

See accompanying notes to the consolidated financial statements.

1. General business description

Appulse Corporation ("Appulse" or the "Corporation"), through its wholly-owned subsidiaries, sells new and refurbished centrifuge machines and parts, and provides rentals of centrifuge equipment. It also provides maintenance services and consulting and design advice to industries throughout North America and internationally. In addition, the Corporation manufactures parts using state-of-the-art machining and milling equipment and provides machining services for equipment repairs. The Corporation also provides value added services including a balancing service for large equipment including centrifuge bowls. The Corporation's market base focuses on food and beverage processing and environmental applications but is diversified to other industries including the oil and gas service industry, refineries, marine processing and pharmaceuticals. Appulse is a publicly traded corporation listed on the TSX Venture Exchange under the symbol APL and is incorporated and domiciled in Canada. The corporate address of business is 3504 – 64 Avenue S.E., Calgary, Alberta, Canada, T2C 1P4. These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 22, 2020.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been issued in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations committee ("IFRIC") in effect as of January 1, 2019. A summary of the Corporation's significant accounting policies under IFRS is presented in note 3.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities which are measured at fair value (note 4(b)).

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation and its subsidiaries.

(d) Use of judgments and estimates

The timely preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the statement of financial position, and the reported amounts of revenues and expenses during the year. Accordingly, actual results may differ from these estimates. Estimates and judgments 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.

The following discussion sets forth management's significant judgments and estimates made in the preparation of these consolidated financial statements:

Critical judgments in applying accounting policies

(i) Determination of cash-generating units ("CGU")

For the purpose of assessing impairment of property and equipment, assets are grouped at the lowest level of separately identified independent cash inflows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. Management has determined that the Corporation has one CGU.

(ii) Impairment of property and equipment

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required.

(iii) Revenue

The Corporation makes judgments in determining whether a performance obligation is distinct (i.e. if a service is separately identifiable from other services provided and if the customer can benefit from it).

Judgments are required when evaluating when a performance obligation is satisfied and revenue may be recognized. In making its judgments, management considers when a customer obtains control of the good or service being promised in the contract and whether another entity fulfilling remaining services would need to re-perform work completed to date.

Judgments are also used to determine whether the Corporation acts as principal or agent on certain flow-throw charges to customers, such as freight costs incurred on the shipment of machines and parts. The judgments made include whether the Corporation or a third-party controls the goods or services provided.

(iv) Deferred taxes

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit and loss in the period in which the change occurs.

Key sources of estimation uncertainty:

(i) Valuation of accounts receivable

The allowance for expected credit losses assessment requires a degree of estimation and judgment. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include sales experience, historical collection and non-payments.

(ii) Valuation of inventories

The Corporation evaluates its inventory to ensure it is carried at the lower of cost and net realizable value. Allowances are made against obsolete or damaged inventories and charged to cost of sales. The reversal of any write-down of inventory arising from an increase in net realizable value would be recognized as a reduction in cost of sales in the period in which the reversal occurred.

The valuation of inventory at net realizable value is based on management's best estimate including historical experience relating to the ultimate selling prices less costs to sell the inventory.

(iii) Revenue

The Corporation uses estimates to determine the transaction price of contracts, which requires estimating the amount of consideration that is enforceable and to which the Corporation expects to be entitled in exchange for satisfying the performance obligations within a contract. The transaction price is determined by considering the terms of the contract and customary business practices.

Estimates are also used to determine the stand-alone selling price of performance obligations and the allocation of the transaction price between performance obligations. When contracts involve more than one distinct performance obligation, consideration is allocated amongst the obligations based on their relative stand-alone selling prices. The best evidence of a stand-alone selling price is the observable price of a service when the entity sells that good or service separately in similar circumstances and to similar customers.

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently to all years presented, unless otherwise stated.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, which are entities over which the Corporation has control. Control is achieved when the Corporation 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 to direct the activities of the entity. The consolidation of the subsidiaries commences on the date on which control is obtained and ends when such control ceases.

The consolidated financial statements include the activities of Appulse and its wholly-owned subsidiaries, Centrifuges Unlimited Inc. (“Centrifuges”), Rolyn Oilfield Services Inc., and Rolyn Oilfield Services (U.S.) Inc. Design Machining Unlimited Inc., a wholly-owned subsidiary, was amalgamated with Centrifuges Unlimited Inc. effective June 1, 2018. The Corporation also holds an 85% interest in 1303365 Alberta Ltd. Effective October 1, 2019, an associated corporation, Rolyn Environmental Service Ltd., was acquired and amalgamated with Centrifuges (note 13).

The principle activities of Centrifuges and Rolyn Oilfield Services Inc. involve the sale and service of new and refurbished industrial centrifuge machines and the sale of related parts. Centrifuges also manufactures centrifuge parts in Calgary, Alberta through facilities of its Design Machining division. Both companies operate from facilities in Calgary, Alberta and Waterloo, Ontario. Rolyn Oilfield Services (U.S.) Inc. and 1303365 Alberta Inc. are headquartered in Calgary, Alberta and are currently inactive.

The financial statements of the Corporation and of its subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies, which are considered to have one operating and reportable segment. Intercompany balances and transactions have been eliminated on consolidation.

(b) Foreign currency translation

Monetary items are translated to Canadian dollars at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated to Canadian dollars at the rate of exchange in effect when the transactions occurred. Revenues and expenses denominated in foreign currencies are translated at the average exchange rate in effect during the period. Foreign exchange gains and losses on translation are included in net income.

(c) Inventory

Inventory is carried at the lower of cost and net realizable value. Cost is determined on a weighted-average basis for raw materials and parts and on a specific item basis for machine inventory. Work in progress is valued at the cost of conversion during the building process. Net realizable value is the estimated selling price less costs to sell.

Inventory cost includes an allocation of direct labour and certain overhead costs of conversion, where applicable. All indirect overheads, including the costs of storage and general and administrative overhead costs, are expensed in the period incurred.

When the applicable cost of the inventories exceeds the net realizable value, inventory is written down to the net realizable value and is subsequently written back up to the original cost if the net realizable value exceeds the book value. All write-downs and reversals are charged to cost of sales.

(d) Property and equipment

(i) Property and equipment

All costs directly associated with the purchase and development of property and equipment are capitalized and reflected at cost less accumulated depreciation and net impairment losses. Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in net income as incurred.

Exchanges of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in net income.

From time-to-time the Corporation sells items of property and equipment that it has held for rental to others. When the rental equipment ceases to be rented and becomes held for sale, it is transferred to inventory at its carrying amount. The proceeds from the sale of such assets are recognized as revenue in accordance with IFRS 15 (note 8). A disposal of an asset categorized under other property and equipment may give rise to a gain or loss to the extent that sale proceeds exceed or are lower than the net book value of the asset. Such gains or losses are recognized in income.

(amounts in Canadian dollars)

(ii) Depreciation

Depreciation of property and equipment including operating assets under finance lease is provided using the declining balance method at the following annual rates approximating their estimated useful lives with the exception of specific machining assets, which are amortized on a straight-line basis over an estimated useful life of ten years:

Shop equipment	20%
Furniture and fixtures	20%
Computers	30%
Vehicles	30%
Rental equipment	20%

Leasehold improvements are depreciated on a straight-line basis over the term of the related lease.

Depreciation of property and equipment capitalized pursuant to the application of IFRS 16 - Leases (Note 3(n)(i)) is provided on a straight-line basis over the term of the related lease.

Depreciation methods, useful lives and residual values are reviewed at each reporting period and adjusted prospectively if appropriate. During the years ended December 31, 2019 and 2018, there were no adjustments to the methods, useful lives or residual values of property and equipment.

(e) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets, which include property and equipment other than property and equipment capitalized pursuant to IFRS 16, (Note 3(n)(i)), are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. For the purposes of assessing impairment, property and equipment are grouped into CGUs.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. 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. Fair value less costs of disposal may be determined using discounted future net cash flows. These 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 recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of goodwill, if any, allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in net income.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 amortization, if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

(f) Provisions and contingent liabilities

Provisions are recognized by the Corporation when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(g) Taxes

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

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

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities 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 to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is 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 tax is 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 taxation 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.

(h) Leases – Lessor

The Corporation leases machines to customers where the benefits and risks of ownership are retained by the Corporation. Lease income from these operating leases is recognized in income on a straight-line basis over the term of the lease and has been included as rental revenue on the consolidated statement of income and comprehensive income.

(i) Revenue recognition

The Corporation's primary sources of revenue under its contracts with customers are the sale of new and refurbished centrifuge machines and parts and provision of maintenance services. The various distinct performance obligations contained in the Corporation's contracts with its customers and the timing of revenue recognition on those obligations are as follows:

Performance obligations from contracts with customers	Timing of the satisfaction of the performance obligation	Pattern of transfer of control
Sale of new and refurbished centrifuge machines	Upon shipment	At a point in time
Centrifuge machine installations	Upon completion of installation	At a point in time
Sale of parts and components	Upon shipment	At a point in time
Sale of parts used in service jobs	Upon completion of work	At a point in time
Performance of service work	Upon completion of work	At a point in time

Typical payment terms for machine sales require a down-payment upon order with a total of 90% of the sale price due prior to shipment. The typical payment term for the other performance obligations is 30 days after the performance obligation is satisfied. Furthermore, when the Corporation is required to incur significant unusual costs in advance of satisfying its performance obligation, additional non-refundable customer deposits are collected in advance.

The Corporation does not disclose the aggregate amount of revenue allocated to performance obligations that are unsatisfied or partially satisfied at year end as its contracts all have an expected duration of one year or less. The Corporation does not have consideration from customers that is not included in its transaction prices and allocated to revenue accordingly. The Corporation does not have any contracts which contain variable consideration.

The Corporation allocates the transaction price to all of its performance obligations using the prices of the promised goods or services as they are quoted and invoiced to customers on a stand-alone basis.

The Corporation also provides warranties on the machines and parts that it sells. These warranties provide the customer with the assurance that the machine or part will function as intended pursuant to agreed upon specifications and as such, do not represent an additional performance obligation.

(j) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in the consolidated statements of income and comprehensive income, using the effective interest method.

Finance expenses include interest expense on borrowings and impairment losses recognized on financial assets.

(k) Financial instruments

Financial assets are measured at amortized cost. Debt investments are measured at fair value through other comprehensive income where the Corporation’s objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless an irrevocable election on initial recognition is made to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognized in a business combination) in other comprehensive income (“OCI”). A financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the portion of the change in fair value that relates to the entity's own credit risk is presented in OCI (unless it would create an accounting mismatch).

The classification changes for each class of the Corporation's financial assets and financial liabilities are summarized in the following table:

	IAS 39		IFRS 9	
Financial assets and liabilities	**Classification**	**Measurement**	**Classification**	**Measurement**
Cash	Held for trading	Amortized cost	Amortized cost	Amortized cost
Accounts receivable and deposits	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Bank indebtedness; accounts payable; finance lease obligations	Financial liabilities	Amortized cost	Amortized cost	Amortized cost

Impairment of financial assets at amortized cost

The recognition of impairment provisions are based on expected credit losses ("ECL"). Impairment provisions on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the provision decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

The Corporation's accounts receivable and deposits are included in this category. The Corporation applies the simplified approach to measuring ECL which uses a lifetime expected impairment. To measure the ECL, impairment provisions on accounts receivable are based on credit risk characteristics and days past due. Accounts receivable are written-off when there is no reasonable expectation of recovery. An indicator that there is no reasonable expectation of recovery is the failure of a debtor to engage in a repayment plan with the Corporation.

Derecognition

Financial assets

The Corporation derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the statement of income and comprehensive income.

Financial liabilities

The Corporation derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of income and comprehensive income.

The Corporation's voting common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(l) Stock-based compensation

The Corporation has a stock option plan as described in note 17(a) and stock options granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model.

The Corporation measures share-based payments to non-employees, if applicable, at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options granted is measured using the Black-Scholes option-pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(m) Income per share

Basic income per share is calculated using the weighted average number of common share outstanding during the period. Diluted income per share is determined by adjusting the Corporation's net income or loss and the weighted average number of common shares outstanding for the effects of all potentially diluted common shares.

(n) New accounting policy

(i) Leases – IFRS 16

Effective January 1, 2019 the Corporation adopted IFRS 16 – *Leases* ("IFRS 16")

IFRS 16 removes the distinction between operating and finance leases and requires the Corporation to recognize a Right-of-use asset and lease obligation at the start of most leases utilizing the present value of the lease payments over the appropriate term of the lease. The Corporation elected to use the practical expedient to not recognize a right-of-use asset or a lease liability for leases for which the lease term ends within 12 months of the date of initial application. The Corporation has also elected not to recognize right-of-use assets and lease liabilities on leases of less than twelve months and those of low value. Lease payments related to these leases are expensed over the lease term.

The Corporation elected to use the "modified retrospective method" upon adoption of IFRS 16. Under terms of the new policy, appropriate leases are capitalized at the present value of the fixed lease payments, discounted using the Corporation's incremental borrowing rate. The Corporation has elected to use an expedient whereby both the lease obligation and the Right-of-use asset are established at the discounted present value of qualifying lease payments at the date of application, being January 1, 2019. Under this method, there is no adjustment to opening retained earnings and comparative 2018 figures are not restated. The primary application of IFRS 16 during 2019 relates to leases on the Corporation's facilities in Calgary, Alberta and Waterloo, Ontario including options to lease these facilities which were exercised during 2019. Under the new policy, payments related to future periods under option are included in the calculation of the corresponding Right-of-use asset if the Corporation is reasonably certain that the option will be exercised. Payments made related to contractual lease obligations are allocated between related interest expense and the reduction of the lease obligations. The Right-of-use assets are depreciated on a straight line basis over the term of the related lease.

The application of IFRS 16 to the 2019 financial statements resulted in a reduction of net income and comprehensive income in the amount of $27,051. The following summarizes the impact of IFRS 16 to specific components of the financial statements as at December 31, 2019:

(amounts in Canadian dollars)

Recognition of a Right-of-use asset, net of amortization	$1,363,188
Recognition of a corresponding lease obligation, net of assumed repayment during the year	1,390,239
Reduction in operating costs related to rent	351,252
Increase in interest expense	82,791
Increase in depreciation	295,512

A reconciliation of the operating lease commitments related to premises as of December 31, 2018 to the opening balance of lease liabilities at the date of adoption is as follows:

Operating lease commitments on facilities as at December 31, 2018	$1,980,853
Lease liabilities as at January 1, 2019 before application of IFRS 16	-
Effect of discounting using the incremental borrowing rate	(322,153)
Lease liabilities recognized as of January 1, 2019	$1,658,700

4. Financial instruments and risk management

(a) Risk management

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Corporation employs risk management strategies and polices to ensure that any exposures to risk are in compliance with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, Appulse's management has the responsibility to administer and monitor these risks.

(b) Fair value of financial instruments

The fair values of cash, accounts receivable, deposits, and accounts payable approximate their carrying values due to the short-term maturity of those instruments. The fair values of bank indebtedness and lease obligations approximate their carrying values as they bear interest at market floating rates or fixed rates consistent with market rates for similar debt.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Corporation's accounts receivable are due from purchasers of centrifuge service, parts or refurbished machines and are subject to normal industry credit risk.

(amounts in Canadian dollars)

The Corporation's revenues are derived from a large and diverse customer base. Typically, orders for centrifuge parts or service are not individually of significant value and are subject to the Corporation's credit and collection programs. Where significant contracts involve the sale of centrifuge machines, substantial customer deposits are required prior to the acceptance of the order and prior to shipment.

The Corporation has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward looking information that is available. The Corporation's maximum exposure to credit risk for accounts receivable is equal to the fair value of accounts receivable on the consolidated statements of financial position shown net of an appropriate allowance for expected credit losses.

Significant changes in industry conditions will increase the risk of not collecting receivables. Management believes the risk is generally mitigated by the size and reputation of the companies to which they extend credit. As at December 31, 2019 and December 31, 2018, the Corporation's accounts receivable comprised the following:

	2019	**2018**
Current	$ 1,086,739	$ 794,602
Less than 60 days overdue	306,618	336,417
Greater than 60 days overdue	488,505	540,168
Total trade receivables	1,881,862	1,671,187
Less: allowance for expected credit losses	45,000	25,000
Total receivables	$ 1,836,862	$ 1,646,187

Bad debt expense for the year ended December 31, 2019 was $27,514 (2018 - $24,711) representing direct write-offs which are included in general and administrative expenses. In addition, the Corporation recorded an additional provision for expected credit loss of $20,000 during 2019, included in general and administrative expenses.

The Corporation manages the credit exposure related to cash by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Corporation's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and global economic conditions.

The financial liabilities on the consolidated statements of financial position consist of bank indebtedness, accounts payable and accrued liabilities and lease obligations which include lease obligations pursuant to the adoption of IFRS 16 (note 3(n)(i)). The Corporation manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements. Formal senior management meetings address levels of firm sales and monitor obligations and customer credit facilities.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as future equity and debt financings. The Corporation also has credit facilities to facilitate the management of liquidity risk (see note 10).

The table below summarizes the maturity profile of the Corporation's financial liabilities at December 31, 2019 and December 31, 2018 based on contractual payments:

As at December 31, 2019	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**	**> 5 years**	**Total**
Bank Indebtedness	$ 1,025,599	$ -	$ -	$ -	$ 1,025,599
Accounts payable and accrued liabilities	2,284,691	-	-	-	2,284,691
Lease obligations	351,960	343,296	942,094	-	1,637,350
	$ 3,662,250	$ 343,296	$ 942,094	$ -	$ 4,947,640

As at December 31, 2018	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**	**> 5 years**	**Total**
Bank Indebtedness	$ 1,246,542	$ -	$ -	$ -	$ 1,246,542
Accounts payable and accrued liabilities	2,510,659	-	-	-	2,510,659
Lease obligations	13,617	18,490	-	-	32,107
	$ 3,770,818	$ 18,490	$ -	$ -	$ 3,789,308

Note: Lease obligations in the 2019 chart are reflected on a cash basis whereas the lease obligations shown on the consolidated statements of financial position reflect discounted amounts pursuant to IFRS 16 (note 3(n)).

(e) Market risk

Market risk is the risk that changes in market prices, foreign exchange rates and interest rates will affect the Corporation's net earnings or the value of financial instruments and are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Primary market risks are as follows:

Foreign currency risk

The Corporation is exposed to currency price risk on sales denominated in U.S. dollars to the extent that the receipt of payment of the U.S. denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on purchases of inventory for sale to the extent that the payment of foreign denominated accounts payable are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at December 31, 2019 are $266,644 (2018 - $182,528) and $938,877 (2018 - $1,328,572) denominated in foreign currency respectively. Included in cash at December 31, 2019 is $94,642 (2018 - $10,020) in foreign currency.

(amounts in Canadian dollars)

The net effect of each 5% change in foreign exchange would have an impact of approximately $33,600 (2018 - $41,500) on net income and comprehensive income. As at December 31, 2019 and 2018, the Corporation had no forward exchange rate contracts in place.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate cash flow risk to the extent that changes in market interest rates impact its bank indebtedness under the floating rate credit facilities. The Corporation is exposed to interest rate price risk on the lease obligations that bear interest at fixed rates. The Corporation had no interest rate swaps or financial contracts in place as at or during the years ended December 31, 2019 and December 31, 2018.

For the year ended December 31, 2019, a 1% change to the effective interest rate on the bank indebtedness would have an impact of approximately $27,000 (2018 - $9,000) on net income based on outstanding balances at December 31, 2019.

(f) Capital management

The Corporation’s capital management policy is to maintain a strong capital base that optimizes the Corporation’s ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Corporation's officers are responsible for managing the Corporation's capital and do so through management meetings and quarterly board meetings including regular reviews of financial information including budgets and forecasts. The Corporation's directors are responsible for overseeing this process. The Corporation considers its capital structure to include equity, bank indebtedness and lease obligations.

The Corporation's defined capital as at December 31 is as follows:

	2019	2018
Equity	$ 4,408,103	$ 3,439,512
Bank indebtedness	1,025,599	1,246,542
Lease obligations	1,441,891	32,107
	$ 6,875,593	$ 4,718,161

The Corporation monitors capital based on its current working capital, available bank line of credit, projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Corporation prepares annual capital expenditure and operating budgets and business plans, which are updated as necessary. The annual and updated budgets are prepared by the Corporation’s management and approved by the Board of Directors. The budget results are regularly reviewed and updated as required.

In order to maintain or adjust the capital structure, the Corporation may issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Corporation's ability to raise additional debt or equity financing is impacted by external factors, including global economic conditions. The Corporation continually monitors economic and general business conditions.

The Corporation also monitors its total capital based on the ratio of net debt to equity. This ratio is calculated as net debt (defined as total debt shown on the consolidated statements of financial position with the exception of debt reflected through the application of IFRS 16 (Note 3(n)(i)), less cash) divided by total shareholders’ equity of the Corporation. The Corporation’s current goal is to maintain that ratio at or below 1 to 1. The net debt to equity ratio at December 31, 2019 was 0.84 to

(amounts in Canadian dollars)

1 (2018 - 1.18 to 1).

The Corporation is subject to externally imposed capital requirements pursuant to ratios related to debt to equity, working capital and debt service coverage. The Corporation is onside with all external debt covenants.

The amount of the demand revolving operating credit facility is determined with reference to inventory and accounts receivable levels maintained.

The Corporation's capital management policy has not changed during the years ended December 31, 2019 or 2018.

5. Supplemental cash flows information

Changes in non-cash working capital is comprised of the following:

	2019	2018
Source (use) of cash:		
Accounts receivable	$ (190,675)	$ (375,388)
Inventory	(383,213)	(77,315)
Prepaid expenses and deposits	1,108	(2,189)
Accounts payable and accrued liabilities	(225,968)	19,900
Customer deposits	198,074	(292,706)
Changes in non-cash working capital	$ (600,674)	$ (727,698)

The following is included in cash flows from operating activities:

	2019	2018
Interest paid in cash	$ 68,043	$ 67,239

At December 31, 2019 and 2018, the Corporation's cash was entirely comprised of cash on deposit.

6. Inventory

Inventory consists of three main classifications:

	2019	2018
Raw materials and parts	$ 3,666,351	$ 3,572,583
Machine inventory	1,056,122	1,040,964
Work in progress	696,514	422,227
Total	$ 5,418,987	$ 5,035,774

Machines rented to customers are included in property and equipment (see note 7).

During the year ended December 31, 2019, $5,179,827 (2018 - $4,637,087) of raw materials, parts and machine inventory was expensed in cost of sales.

During the year ended December 31, 2019, $84,331 (2018 - $26,094) of inventory was written down to bring inventory to its net realizable value and has been included in cost of sales.

Inventories are pledged as security under the terms of a general security agreement as referred to in note 10.

(amounts in Canadian dollars)

7. (a) Property and equipment

	Shop Equipment	Furniture and Fixtures	Computers	Vehicles	Rental Equipment	Leasehold Improvements	Total
Cost							
Balance as at December 31, 2017	$1,581,689	$ 88,127	$ 202,670	$ 205,213	$ 844,621	$ 208,965	$3,131,285
Assets acquired	84,514	-	2,750	4,089	23,294	1,088	115,735
Disposals	-	-	-	-	(14,799)	-	(14,799)
Balance as at December 31, 2018	1,666,203	88,127	205,420	209,302	853,116	210,053	3,232,221
Assets acquired	77,660	1,950	6,335	33,999	175,017	10,637	305,598
Disposals	-	-	-	-	(57,405)	-	(57,405)
Balance as at December 31, 2019	$1,743,863	$ 90,077	$ 211,755	$ 243,301	$ 970,728	$ 220,690	**$3,480,414**
Accumulated depreciation							
Balance as at December 31, 2017	$1,273,830	$ 72,561	$ 163,954	$ 149,099	$ 524,243	$ 133,396	$2,317,083
Depreciation for the year	70,914	3,113	14,667	17,447	65,326	47,778	219,245
Disposals	-	-	-	-	(9,401)	-	(9,401)
Balance as at December 31, 2018	1,344,744	75,674	178,621	166,546	580,168	181,174	2,526,927
Depreciation for the year	72,172	2,686	8,990	17,926	61,376	31,084	194,234
Disposals	-	-	-	-	(3,827)	-	(3,827)
Balance as at December 31, 2019	$1,416,916	$ 78,360	$ 187,611	$ 184,472	$ 637,717	$ 212,258	**$2,717,334**
Carrying amounts							
At December 31, 2018	$ 321,459	$ 12,453	$ 26,799	$ 42,756	$ 272,948	$ 28,879	$ 705,294
At December 31, 2019	$ 326,947	$ 11,717	$ 24,144	$ 58,829	$ 333,011	$ 8,432	**$ 763,080**

Included in the vehicles amount above are vehicles with a net book value of $47,263, which were acquired through financing contracts.

(b) Right-of-use asset

The Right-of-use asset derived from the January 1, 2019 application of IFRS 16 (Note 3(n)(i)) primarily consists of the discounted value of future rental payments related to the Corporations facilities in Calgary, Alberta and Waterloo, Ontario, reduced by depreciation of the assets over the terms of the respective leases.

Cost	
Balance as at December 31, 2018	$ -
Recognition on January 1, 2019 (Note 3(n)(i))	1,658,700
Additions	-
Balance as at December 31, 2019	**$ 1,658,700**
Accumulated depreciation	
Balance as at December 31, 2018	$ -
Depreciation for the year	295,512
Balance as at December 31, 2019	**$ 295,512**
Carrying amounts	
At December 31, 2018	$ -
At December 31, 2019	**$ 1,363,188**

(amounts in Canadian dollars)

8. Revenue

(a) Disaggregation of revenue

The Corporation's primary sources of revenue relate specifically to industrial centrifuge equipment and comprise the following categories related to the fiscal years ended December 31, 2019 and 2018.

		2019		**2018**
Sale of parts and components	$	6,167,480	$	5,656,848
Service work		2,117,201		1,889,437
Sale of machines		2,368,808		1,932,104
Rental		441,199		270,302
	$	11,094,688	$	9,748,691

(b) Customer deposits

At December 31, 2019, customer deposits totaled $469,930 (2018 - $271,856). These amounts are comprised of non-refundable customer deposits received as work commences. Customer deposits are applied against customer invoices at the point of revenue recognition.

9. Taxes

The income tax expense for the year is made up of the following:

		2019		**2018**
Current tax expense	$	-	$	-
Deferred tax expense		35,428		65,849
	$	35,428	$	65,849

Reconciliation of effective tax rate:

		2019		**2018**
Income before taxes	$	894,106	$	233,414
Statutory income tax rate		26.5%		26.9%
Expected tax expense		236,938		62,695
Increase (decrease) in taxes is resulting from:				
Rate differential		5,244		(3,880)
Permanent differences		8,464		7,034
Other items		(685,415)		-
Unrecognized deferred tax assets		470,197		-
Income tax expense	$	35,428	$	65,849

(amounts in Canadian dollars)

Deferred tax asset as at December 31:

		2019		**2018**
Balance at the beginning of the year	$	35,428	$	101,277
Deferred tax expense		(35,428)		(65,849)
Balance at the end of the year	$	-	$	35,428

Deferred tax asset as at December 31, 2019 and 2018 is comprised of the following:

		2019		**2018**
Non-capital loss carried forward	$	9,501	$	65,912
Property and equipment		(9,501)		(30,484)
Balance at the end of the year	$	-	$	35,428

The following provides the details of gross unrecognized deductible temporary differences and unused losses for which no deferred tax asset has been recognized:

		2019		**2018**
Non-capital loss carried forward	$	2,064,184	$	-
Property and equipment		(21,412)		-
Balance at the end of the year	$	2,042,772	$	-

The Company's estimated non-capital loss carried forward is $2,064,184 (2018 – $245,411) which begins to expire in 2028.

(amounts in Canadian dollars)

10. Bank indebtedness

The Corporation has bank debt outstanding of $1,025,599 at December 31, 2019 (2018 - $1,246,542), which is comprised of a demand revolving operating credit facility in the amount of $1,005,709 (2018 - $1,197,090), and a demand evergreen line of credit facility associated with the purchase of equipment in the amount of $19,890 (2018 - $49,452).

At December 31, 2019, the Corporation's demand revolving operating credit line can be drawn to a maximum of $1,500,000 (2018 - $1,500,000), subject to margining restrictions based on accounts receivable and inventory balances. The operating credit line bears interest at the lender's prime rate plus 1.5% (2018 – 1.5%) per annum. The evergreen line of credit facility can be drawn to a maximum of $150,000 (2018 - $150,000), with each draw repayable over a maximum three year amortization with variable interest rates determined at the time of each draw. Each loan under this credit facility is payable in full on demand by the lender, but in any event no later than the maturity date for each loan. All amounts outstanding on the evergreen line of credit at December 31, 2019 bear interest at the lender's prime rate plus 1.5% per annum. The current loan matures March 29, 2021.

The bank indebtedness is secured by a general security agreement over the assets held by the Corporation. The Corporation must also meet certain financial covenants, as discussed in note 4(f). All credit facilities are demand facilities and are subject to review by the lender at any time in its sole discretion and at least annually. The next annual review date has been set for June 30, 2020.

11. Lease obligations

	2019	2018
Lease obligations related to the adoption of IFRS 16 (note 3(n)(i)). This obligation to be reduced through application of the non-interest portion of facility lease payments:		
Balance forward from prior year	$ -	$ -
Recognition on January 1, 2019 (note 3(n)(i))	1,658,700	-
Lease finance expense (accretion)	82,791	-
Repayments in the year	(351,252)	-
Balance end of year	1,390,239	-
Finance lease obligations related to vehicles, bearing interest at rates ranging from 8.7% to 9.6% per annum, with final payments due on June 15, 2020, July 1, 2020 and Dec 2, 2023 secured by specific vehicles with a carrying amount of $47,263 (2018 - $26,235).	51,652	32,107
	1,441,891	32,107
Less: Portion due within one year	(276,306)	(13,617)
	$ 1,165,585	$ 18,490

(amounts in Canadian dollars)

12. Related party transactions

Cost of sales includes purchases of $32,738 (2018 - $23,148) from a director or a company controlled by a director of the Corporation. $282,496 (2018 - $270,739), including unpaid amounts from prior periods, remains in accounts payable and accrued liabilities relating to these purchases. The amounts in accounts payable and accrued liabilities are not subject to specific repayment terms and will be repaid through future cash flows.

Key management personnel include executive officers and directors. Executive Officer compensation paid during the year ended December 31, 2019 was comprised of salaries of $325,982 (2018 - $305,908) and benefits of $6,395 (2018 - $3,979) and is included in general and administration expenses. In addition, $14,360 (2018 - $11,760) of stock-based compensation expense was recorded in respect of options held by key management personnel. The directors' remuneration for the year amounted to $15,500 (2018 - Nil).

Included in accounts payable and accrued liabilities at December 31, 2019 is $44,117 (2018 - $44,117) related to property and equipment purchases of prior periods from a director or a company controlled by a director of the Corporation. These amounts are not subject to specific repayment terms and will be repaid through future cash flows.

13. Share capital

(a) Authorized
Unlimited number of voting common shares
Unlimited number of preferred shares, issuable in series

(b) Issued

Common Shares	**Number**	**Stated Value**
Balance, December 31, 2017	13,182,697	$ 2,006,453
Exercise of stock options	225,000	58,028
Balance, December 31, 2018	13,407,697	2,064,481
Issued pursuant to amalgamation agreement	230,453	46,091
Exercise of stock options	235,000	39,950
Balance, December 31, 2019	13,873,150	$ 2,150,522

During the year ended December 31, 2019, the Corporation committed to issue 230,453 common shares to shareholders of Rolyn Environmental Service Ltd. pursuant to an amalgamation agreement resulting in the amalgamation of Rolyn Environmental Service Ltd. with Centrifuges, a wholly-owned subsidiary of the Corporation. Prior to the amalgamation, Centrifuges controlled 37% of Rolyn Environmental Service Ltd. The combined operation continues under Centrifuges Unlimited Inc. At the time of the acquisition, Rolyn Environmental Service Ltd. had no inputs, outputs or processes that would meet the definition of a business in accordance with IFRS 3 – Business Combinations. As a result the acquisition of the additional 63% of shares is treated as an assets acquisition. As a result of the amalgamation, the continuing corporation has estimated non-capital tax loss carry forwards at December, 31, 2019 of approximately $ 2,044,000.

During the year ended December 31, 2019, 235,000 stock options were exercised to acquire 235,000 common shares for gross proceeds of $23,500. As a result of the exercise, $16,450 of stock-based compensation previously recognized was transferred from contributed surplus to share capital.

(amounts in Canadian dollars)

14. General and administrative expenses

General and administrative expenses is comprised of the following:

	2019	2018
Salaries and benefits	$ 1,419,061	$ 1,327,565
General office expenses	98,726	112,261
Office occupancy	68,451	108,372
Auto and equipment rental	59,828	76,270
Marketing and travel	94,736	148,460
Other corporate costs	113,658	80,441
	$ 1,854,460	$ 1,853,369

15. Employee wages and benefits expense

Employee wages and benefits expenses recognized in cost of sales and general and administrative expenses are as follows:

	2019	2018
Cost of Sales		
Wages and employee benefits	$ 1,495,603	$ 1,334,228
General and administrative		
Wages and employee benefits	$ 1,419,061	$ 1,327,565

16. Segmented reporting

The Corporation receives revenue from product and service sales to Canadian, U.S. and International customers, which is derived from one operating segment.

Geographic revenue is summarized as follows for the years ended December 31:

	2019	2018
Canada	$ 9,712,842	$ 8,512,542
U.S.	1,216,994	1,161,023
International	164,852	75,126
	$ 11,094,688	$ 9,748,691

All of the Corporation's non-current assets are located in Canada.

(amounts in Canadian dollars)

17. Stock-based compensation

(a) Stock option plan

The Corporation has a stock option plan under which directors, officers and employees are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Corporation at the time of granting of the options. Options granted under the plan generally have a term of five years and may not exceed ten years, and vest at terms to be determined by the directors at the time of grant. The exercise price of each option is determined by the directors at the time of grant, but shall not be less than the price permitted by the policy or policies of the stock exchange(s) upon which the Corporation's common shares are then listed.

The following options have been awarded under the stock option plan:

	Year ended December 31,			
	2019		2018	
	Number	**Weighted Average Exercise Price**	**Number**	**Weighted Average Exercise Price**
Outstanding, beginning of year	1,202,000	0.13	1,197,000	0.12
Issued	361,000	0.16	430,000	0.135
Exercised	(235,000)	0.10	(225,000)	0.13
Forfeited	(26,000)	0.137	(40,000)	0.12
Expired	(99,000)	0.10	(160,000)	0.13
Outstanding at December 31	1,203,000	0.144	1,202,000	0.13
Exercisable at December 31	1,203,000	0.144	1,202,000	0.13

The following table summarizes information related to the Corporation's outstanding stock options as at December 31, 2019:

Date of grant	**Outstanding Options**	**Exercise Price**	**Weighted Average Remaining Contractual life (years)**	**Number of Stock Options Exercisable**
January 4, 2017	428,000	0.14	2.01	428,000
January 12, 2018	414,000	0.135	3.03	414,000
May 23, 2019	361,000	0.16	4.38	361,000
	1,203,000		3.07	1,203,000

During 2018, 225,000 stock options were exercised to acquire 225,000 common shares for gross proceeds of $29,250. The weighted average share price at the date of exercise was $0.16.

On January 12, 2018, the Corporation issued 430,000 common share options to employees and directors of the Corporation at an exercise price of $0.135 per share. The options expire January 11, 2023 and vested upon issuance.

(amounts in Canadian dollars)

On May 23, 2019, the Corporation issued 361,000 common share options to employees and directors of the Corporation at an exercise price of $0.16 per share. The options expire May 22, 2024 and vested upon issuance.

(b) Stock-based compensation expense

The fair value of the 361,000 stock options granted during the year ended December 31, 2019 was calculated using the Black-Scholes pricing model using a share price of $0.16 per share, an exercise price of $0.16 per share, a term of 5 years, volatility of 62% and a discount rate of 1.5%. Stock-based compensation costs of $28,800 for the year ended December 31, 2019 have been expensed and have resulted in a corresponding increase in contributed surplus.

The fair value of the 430,000 stock options granted during the year ended December 31, 2018 was calculated using the Black-Scholes pricing model using a share price of $0.135 per share, an exercise price of $0.135 per share, a term of 5 years, volatility of 45% and a discount rate of 2.0%. Stock-based compensation costs of $24,168 for the year ended December 31, 2018 have been expensed and have resulted in a corresponding increase in contributed surplus.

18. Finance expenses

	2019	2018
Finance expenses		
Interest on bank indebtedness	$ 65,084	$ 63,601
Interest on leases	85,750	3,638
	$ 150,834	$ 67,239

19. Income per share

The weighted average number of common shares used in the calculation of income per share is as follows:

	2019	2018
Basic	13,632,012	13,405,848
Effect of dilutive options	182,000	329,338
Diluted	13,814,012	13,735,186

20. Subsequent event

Subsequent to December 31, 2019, the World Health Organization declared a pandemic related to the continuing world wide spread of the Covid-19 virus.

As at the date of this report, the Corporation is fully operating at both the Calgary, Alberta and Waterloo, Ontario locations. The majority of the Corporation’s customers are involved in food and beverage processing and the Corporation is therefore classified as an essential business.

The confusion and uncertainty caused by this health threat is expected to seriously impact the economies of many of the world’s countries, including Canada, and will certainly have a negative impact on businesses worldwide.

The Corporation continues to address the critical needs of its processing customer base. Under current conditions, however, it is impossible to reliably estimate the impact of the pandemic on the Corporation’s future financial results.