POND TECHNOLOGIES HOLDINGS INC.

(formerly, IRONHORSE OIL & GAS INC.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pond Technologies Holdings Inc.

Opinion

We have audited the consolidated financial statements of Pond Technologies Holdings Inc., (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) 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 Group as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and December 31, 2017 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 Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $5,373,510 during the year ended December 31, 2018 and, as of that date, the Company's current liabilities exceeded its current assets by $1,044,149. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises information contained in Management's discussion and analysis, but does not include the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
April 30, 2019
Toronto, Ontario

Pond Technologies Holdings Inc.

(formerly, Ironhorse Oil & Gas Inc.)

Consolidated Balance Sheet

As at December 31, 2018

	Note		2018		2017
Assets					
Current Assets					
Cash and cash equivalents		**$**	**2,823,743**	$	1,281,883
Contract receivable	12		**1,000,137**		-
Receivables			**135,246**		298,697
Prepaid expenses and other assets			**307,919**		73,594
			4,267,045		1,654,174
Intangibles	6		**2,342,167**		1,835,431
Capital assets	7		**4,255,601**		987,971
Total assets		**$**	**10,864,813**	$	4,477,576
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	8	**$**	**1,080,630**	$	1,309,807
Current portion of loans payable	9		**3,697,928**		1,405,000
Deferred contract revenue	12		**532,636**		17,500
			5,311,194		2,732,307
Decommissioning liabilities	10		**96,015**		-
Long-term portion of loans payable	9		**170,472**		3,808,145
Total liabilities		**$**	**5,577,681**	$	6,540,452
Shareholders' Equity					
Share capital	11	**$**	**23,676,390**	$	13,678,295
Contributed surplus	11		**4,593,415**		1,867,992
Deficit			**(22,982,673)**		(17,609,163)
Shareholders' equity / (deficency)			**5,287,132**		(2,062,876)
Total liabilities and shareholders' equity		**$**	**10,864,813**	$	4,477,576

Description of business and going concern (Note 1)

Commitments and contingencies (Note 20)

Subsequent events (Note 21)

Approved on behalf of the Board:

"Gerry Quinn" — Director

"Steve Martin" — Director

See accompanying notes to the consolidated financial statements.

Pond Technologies Holdings Inc.

(formerly, Ironhorse Oil & Gas Inc.)

Consolidated Statement of Loss and Comprehensive Loss

For the year ended December 31, 2018

	Note		**2018**		2017
Revenue					
Revenue	12, 17	**$**	**3,540,074**	$	8,904
Expenses					
Direct costs and expenses	17	**$**	**2,741,806**	$	-
Operating expenses	13		**1,905,457**		1,072,956
General and administrative expense	13		**2,213,400**		761,380
Amortization and depletion	6,7		**863,030**		360,816
Stock-based compensation	11		**485,122**		67,002
			8,208,815		2,262,154
Operating loss		**$**	**(4,668,741)**	$	(2,253,250)
Other income / (expense)					
Interest income		**$**	**49,029**	$	114
Financial expenses	14		**(591,705)**		(600,158)
Loss on disposal of capital asset	7		**(162,093)**		-
Net loss and comprehensive loss		**$**	**(5,373,510)**	$	(2,853,294)
Weighted average number of shares outstanding			**18,931,382**		11,496,519
Basic and diluted loss per common share			**(0.28)**		(0.25)

See accompanying notes to the consolidated financial statements.

Pond Technologies Holdings Inc.

(formerly, Ironhorse Oil & Gas Inc.)

Consolidated Statement of Changes in Shareholders' Equity (Deficiency)

For the year ended December 31, 2018

	Number of Shares	Number of Warrants	Share Capital	Contributed Surplus	Deficit	Total
Balance - January 1, 2017	10,996,245	729,140	$ 10,668,295	$ 1,421,170	$ (14,755,869)	$ (2,666,404)
Shares and warrants issued	1,735,000	1,870,000	3,712,807	468,504	-	4,181,311
Share issuance costs	-	-	(702,807)	(88,684)	-	(791,491)
Net loss and comprehensive loss for the period	-	-	-	-	(2,853,294)	(2,853,294)
Stock-based compensation expense	-	-	-	67,002	-	67,002
Balance - December 31 , 2017	12,731,245	2,599,140	$ 13,678,295	$ 1,867,992	$ (17,609,163)	$ (2,062,876)
Shares issued in connection with business combination transaction (Note 5)	4,041,313	-	6,223,622	-	-	6,223,622
Shares issued concurrent financing (Note11)	2,641,873		4,068,484		-	4,068,484
Warrants issued		2,836,554		2,463,429		2,463,429
Share issuance costs	-	-	(689,647)	(153,266)	-	(842,913)
Shares issued to purchase distribution rights	516,128	-	320,000	-	-	320,000
Shares issued from conversion of Agent Warrants	2,406	-	5,774	-	-	5,774
Warrants and Agent Warrants expired or exercised	-	(419,140)	69,862	(69,862)	-	-
Grant of deferred share units (Note 11)	-	-	-	132,917	-	132,917
Stock-based compensation expense	-	-	-	352,205	-	352,205
Net loss and comprehensive loss for the period	-	-	-	-	(5,373,510)	(5,373,510)
Balance - December 31 2018	**19,932,965**	**5,016,554**	**$ 23,676,390**	**$ 4,593,415**	**$ (22,982,673)**	**$ 5,287,132**

See accompanying notes to the consolidated financial statements.

Pond Technologies Holdings Inc.

(formerly, Ironhorse Oil & Gas Inc.)

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	Note	**2018**	2017
Operating Activities			
Cash receipts from customers		**$ 4,950,672**	$ 30,398
Contract receivable, net	12	**(1,000,172)**	-
Cash paid to suppliers and employees		**(7,872,625)**	(1,572,887)
Interest paid		**(361,705)**	(748,164)
Interest received		**47,217**	114
Cash flows used in operating activities		**(4,236,613)**	(2,290,539)
Investing Activities			
Cash arising from business acquisition	5	**2,129,787**	-
Patent costs incurred	6	**(8,495)**	(35,534)
Purchase of capital assets	7	**(115,301)**	(28,335)
Purchase of distribution rights	6	**(320,000)**	-
Cash used in investing activities		**1,685,991**	(63,869)
Financing Activities			
Proceeds from issuance of units, net of issuance costs	11	**5,497,582**	3,196,661
Repayments of loans payable		**(1,405,100)**	(20,043)
Cash provided by financing activities		**4,092,482**	3,176,618
Net change in cash		**1,541,860**	822,210
Cash beginning of year		**1,281,883**	459,673
Cash, end of year		**$ 2,823,743**	$ 1,281,883

See accompanying notes to the consolidated financial statements.

1. REPORTING ENTITY AND GOING CONCERN

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

Prior to January 30, 2018, Ironhorse’s primary business was the development and production of petroleum and natural gas reserves in western Canada. Post-amalgamation, Pond’s primary business is the pursuit of microalgal biomass production using raw stack gas emissions from industrial emitters. The Company’s technology offers industrial emitters an opportunity to generate significant revenue from their greenhouse gas emissions, through production of valuable biomass. These revenue streams for the Company’s customers may be further augmented by the potential generation and sale of carbon credits.

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

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

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

For the year ended December 31, 2018, the Company recorded a net loss of $5,373,510 (2017 **–** $2,835,294) and has a working capital deficiency of $1,044,149 (2017 **–** $1,078,133) at that date. The Company’s ability to continue as a going concern is dependent on successfully executing its business plan, which includes the raising of additional funds and realization of profitable operations. The Company will continue to seek additional forms of debt or equity financing, but it cannot provide assurance that it will be successful in doing so. These circumstances lend significant doubt and material uncertainty as to the ability of the Company to meet its obligations as they come due and, accordingly, the ability to continue as a going concern.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The Company’s management prepared these consolidated financial statements in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”) and interpretations by the IFRS Interpretation Committees applicable to the preparation of financial statements. The Board of Directors approved these financial statements on April 30, 2019.

(b) Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars, which is the functional currency of the Company.

2. BASIS OF PREPARATION (Continued)

(c) Consolidated Financial Statements

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

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

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

(d) Comparative figures

Certain balances in the previous year have been reclassified to conform to the current year's basis of presentation.

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

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

Significant judgments in applying accounting policies

(i) Capital assets and intangibles

Management uses judgment to determine whether its process patents, distribution rights, capital equipment and oil and conventional natural gas asset meet the asset recognition criteria and are eligible to be capitalized on the balance sheet, as well as assessments of useful lives and impairment indicators.

(ii) Valuation of oil and conventional natural gas assets

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

(iii) Joint operations

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

(iv) Revenue Recognition

The Company's revenues pertaining to the technology services segment are generated from complex customer contracts. Management's judgment is applied regarding the evaluation of multiple obligations within these arrangements to assess whether deliverables should be recognized as separate performance obligations for revenue recognition purposes.

2. BASIS OF PREPARATION (Continued)

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

Key sources of estimation uncertainty

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

Stock-based compensation and warrants

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

Oil and conventional natural gas assets and liabilities

(i) Reserves

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's oil and conventional natural gas properties and equipment, the calculation of depletion and depreciation, and the provision for decommissioning liabilities. The reserve assessment was completed by an external third party engineering firm for the year ended December 31, 2018.

(ii) Decommissioning liabilities

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

(iii) Asset acquisitions/Business combinations

Management estimates the fair value of the acquired identifiable net assets at the date of acquisition and specifically, in identifying and valuing intangibles, goodwill, property, plant and equipment and liabilities acquired in acquisitions.

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

Technology Services

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

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

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

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

Contract costs:

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

Contract assets and liabilities:

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Oil and Conventional Natural Gas

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

Transportation

Costs paid by the Company for the transportation of oil and conventional natural gas from wellhead to the point of title transfer are recognized when the transportation is provided.

Joint Arrangements

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

Capital assets

Amounts recorded for amortization of capital assets are based on management's best estimate of their useful lives. Accordingly, those amounts are subject to measurement uncertainty. The Company uses the straight-line method for amortization except oil and conventional natural gas property, plant and equipment assets, as follows:

Project equipment	5-20 years
Furniture, fixtures and equipment	5 years
Computer hardware and software	3 years

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets (Continued)

(i) Depletion and depreciation

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

(ii) Impairment of capital assets

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

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

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

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

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

Intangible assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

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

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

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

Decommissioning liabilities

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

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

Share capital

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

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

Stock-based compensation

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

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

Where equity instruments are granted to non-employees, they are recorded at the fair value of goods or services received in the statement of loss and comprehensive loss, unless they are related to the issuance of shares.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based compensation (Continued)

Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the goods or services received are measured, indirectly, by reference to the fair value of equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders service.

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

Income taxes

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

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

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

Provisions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment tax credits and government grants

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

Comprehensive loss / loss per share

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

Financial assets and financial liabilities

All financial assets and financial liabilities are included on the balance sheet and are measured at amortized cost.

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

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

IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new 'expected credit loss' model for calculating impairment of financial assets. IFRS 9 specifies different approaches for measuring and recognizing expected credit losses, by considering only defaults in the next 12 months and/or the full remaining life of the financial asset. The expected credit loss model requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired, with subsequent changes in expected credit losses at each reporting date recorded to reflect any change in credit risk. IFRS 9 provides a simplified approach for certain trade receivables and IFRS 15 contract assets that have maturity dates of less than one year.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Standards, interpretations and amendments to published standards adopted

The following revised standards are effective for annual periods beginning on January 1, 2018, and their adoption did not have an impact on these financial statements, but may affect the accounting for future transactions or arrangements:

Share-Based Payment ("IFRS 2")

IFRS 2, Share-Based Payment, has been amended by the IASB to provide additional guidance on the classification and measurement of share-based payment transactions. The amendments clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The adoption of the new amendments did not have a material impact on the measurement, presentation and disclosure of share-based payments in the consolidated financial statements.

Financial Instruments ("IFRS 9")

On January 1, 2018 IFRS 9 Financial instruments became effective. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions of IFRS 9 comparative figures have not been restated.

As of January 1, 2018 the Company's management has assessed that the Company has a business model whose objective is to hold financial assets in order to collect contractual cash flows and has determined that amortized cost is the appropriate IFRS 9 category. The Company revised its impairment methodology under IFRS, however no additional impairment loss was identified. There was no impact from IFRS 9 adoption on the Company's financial assets and financial liabilities as these continue to be accounted as financial assets and financial liabilities at amortized cost.

The following table outlines the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

	Prior Classification and Measurement under IAS 39	**Current Classification and Measurement under IFRS 9**
Financial assets:		
Cash and cash equivalents	Loan and receivables at amortized cost	Amortized cost
Receivables	Loan and receivables at amortized cost	Amortized cost
Contract receivable	Loan and receivables at amortized cost	Amortized cost
Financial liabilities:		
Loans payable	Other liabilities at amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other liabilities at amortized cost	Amortized cost

4. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

Standard interpretations and amendments published but not yet adopted

Leases ("IFRS 16")

IFRS 16, Leases, which will replace IAS 17, Leases, introduces a single lessee accounting model for all leases by eliminating the distinction between operating and financing leases. IFRS 16 requires lessees to recognize right-of-use assets and lease liabilities for most leases. Lessees will also recognize depreciation expense on the right-of-use asset and interest expense on the lease liability in the statement of loss and comprehensive loss. Short-term leases, which are defined as those that have a lease term of 12 months or less; and leases of low-value assets are exempt. Lessor accounting remains substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted only if aligned with or after the adoption of IFRS 15 The

Company intends to adopt the amendments to IFRS 16 in its consolidated financial statements for the period beginning on January 1, 2019. The extent and impact of the adoption of the standard has not yet been determined.

5. BUSINESS COMBINATION TRANSACTION

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

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

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

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

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

5. BUSINESS COMBINATION TRANSACTION (Continued)

Consideration paid:		
Fair value of the 4,041,313 post-consolidated shares of the Company on January 30, 2018	**$**	**6,223,622**
Allocation of purchase price:		
Cash and cash equivalents	$	2,129,787
Receivables		232,563
Prepaid expenses and other assets		144,735
Property plant and equipment (Note 7)		4,131,827
Accounts payable and accrued liabilities		(324,607)
Decommissioning liability (Note 10)		(90,683)
	$	**6,223,622**

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

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

6. INTANGIBLES

		Patent Filing Costs and Acquired Intellectual Property		Distribution Rights		Total
Cost						
Balance, January 1, 2017	$	2,690,747	$	-	$	2,690,747
Additions		35,534		-		35,534
Balance, December 31, 2017		2,726,281		-		2,726,281
Additions		8,495		640,000		648,495
Balance, December 31, 2018		2,734,776		640,000		3,374,776
Accumulated amortization						
Balance, January 1, 2017		755,003		-		755,003
Additions		135,847		-		135,847
Balance, December 31, 2017		890,850		-		890,850
Additions		136,426		5,333		141,759
Balance, December 31, 2018		1,027,276		5,333		1,032,609
Net carrying amount						-
Balance, January 1, 2017		1,935,744		-		1,935,744
Balance, December 31, 2017		1,835,431		-		1,835,431
Balance, December 31, 2018	**$**	**1,707,500**	**$**	**634,667**	**$**	**2,342,167**

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

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

7. CAPITAL ASSETS

	Project equipment and leasehold improvements	Furniture fixtures and equipment	Computer hardware and software	Oil & natural gas property plant and equipment	Total
Cost					
Balance, January 1,2017	$ 2,410,808	$ 81,084	$ 74,418	$ -	$ 2,566,310
Additions	53,602	31,596	30,759	-	115,957
Government grant	(86,560)	(700)	(362)	-	(87,622)
Balance, December 31, 2017	2,377,850	111,980	104,815	-	2,594,645
Acquisition (Note 5)	-	-	-	4,131,827	4,131,827
Additions	104,723	2,669	7,909	-	115,301
Disposals	(698,442)	-	(4,633)	-	(703,075)
Change in decommissioning liability (Note 10)		-	-	3,307	3,307
Balance, December 31, 2018	1,784,131	114,649	108,091	4,135,134	6,142,005
Accumulated amortization					
Balance, January 1,2017	1,280,771	41,000	59,936	-	1,381,707
Amortization	211,192	6,569	7,206	-	224,967
Balance, December 31, 2017	1,491,963	47,569	67,142	-	1,606,674
Amortization and depletion	186,024	10,322	13,248	520,317	729,911
Disposals	(446,207)	-	(3,974)	-	(450,181)
Balance, December 31, 2018	1,231,780	57,891	76,416	520,317	1,886,404
Net carrying amount					
Balance, January 1, 2017	1,130,037	40,084	14,482	-	1,184,603
Balance, December 31, 2017	885,887	64,411	37,673	-	987,971
Balance, December 31, 2018	**$ 552,351**	**$ 56,758**	**$ 31,675**	**$ 3,614,817**	**$ 4,255,601**

Depletion

Future development costs of $70,300 (2017-$Nil) associated with the development of the Company's proved plus probable reserves were included in the calculation of depletion for the year ended December 31, 2018.

Impairment

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

In performing the review of the technology CGU, management determined there was no impairment loss for the year ended December 31, 2018 based on the future net cash flows arising from the commercial applications of this group.

In performing the review of the oil and conventional natural gas CGU, management determined that the continued depressed commodity pricing and the impact this has on the economic performance of the Company's CGU justified calculation of the recoverable amounts of the CGU. The recoverable amounts were estimated at the fair value less costs of disposal based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by external engineers. The future net cash flows were discounted at a rate of 10%. There was no impairment loss required for any of the Company's CGU for the year ended December 31, 2018. Key assumptions used in the determination of the recoverable amounts of each CGU include commodity prices and discount rates applied to cash flows from proved and probable reserves. A 1% increase in the assumed discount rate over the life of the reserves independently would not have resulted in an impairment loss at December 31, 2018.

7. CAPITAL ASSETS (Continued)

The forecasted commodity prices used in the impairment test at December 31, 2018 were as follows (CDN$/bbl):

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

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

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Accounts payable	**$ 654,569**	$ 899,200
Interest payable	**224,699**	76,331
Payroll and other accruals	**201,362**	334,276
	$ 1,080,630	$ 1,309,807

9. LOANS PAYABLE

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

	CW(i)	**SMC (ii)**	**FedDev (iii)**	**Total**
Balance, January 1,2017	$ 4,500,000	$ 350,000	$ 341,620	$ 5,191,620
Advances	-	-	-	-
Conversion to shares	-	(50,000)	-	(50,000)
Accretion	-	-	91,568	91,568
Repayments	-	-	(20,043)	(20,043)
Balance, December 31,2017	4,500,000	300,000	413,145	5,213,145
Conversion to shares	-	-	-	-
Accretion	-	-	60,255	60,255
Repayments	(1,000,000)	(300,000)	(105,000)	(1,405,000)
Balance, December 31, 2018	**3,500,000**	**-**	**368,400**	**3,868,400**
				-
Less: Current portion of loans payable	**3,500,000**	**-**	**197,928**	**3,697,928**
Long-term portion of loans payable	**$ -**	**$ -**	**$ 170,472**	**$ 170,472**

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

During 2015, the Company issued a promissory note to CW in the amount of $350,000 bearing interest at 12% per annum. On February 19, 2016, the Company entered into a secured loan agreement with CW with a maximum credit amounting to $4,500,000. The loan agreement incorporated the amount advanced under the promissory note and the promissory note was terminated and superseded by the loan agreement.

9. LOANS PAYABLE (Continued)

Crystal Wealth Management System Ltd. (Continued)

The loan bears interest at the rate of 12% per annum, has no regularly scheduled repayment terms with a maturity date of the earlier of February 19, 2018 or the completion of a financing transaction resulting in a capital injection in excess of $4,500,000. The loan is secured by a general security agreement with a first charge on the Company's assets and a specific assignment of rights in all patents during the year.

During 2016, CW amended the credit facility agreement and the Company was advanced an additional $160,000. CW also issued amendments to defer interest payments, originally due quarterly, to March 31, 2017. The advance of $160,000 was subsequently settled by the Company through a non-brokered private equity placement (Note 11) in 2017.

On August 11, 2017, the Company signed an amendment to its loan agreement with CW. The amended terms include a loan maturity extension to June 30, 2019, reduction of quarterly interest payable to 8%, deferral of quarterly interest payable of 4%, a ("First Interest Payment") due of $581,398 payable on November 30, 2017 and a principal repayment of $1,000,000 on December 31, 2017. The amendment also requires the Company to make principal loan repayments if it raises in excess of $10,000,000 in financing during the term of the loan. In that event, the amount of the principal loan repayment will be 20% of the proceeds in excess of $10,000,000.

On November 16, 2017, the Company signed a second amendment to its loan agreement with CW. The amended terms include an extension of the repayment to the First Interest Payment to December 21, 2017 and an extension fee of $10,000.

On December 19, 2017, the Company signed a third amendment to its loan agreement with CW. The amended terms include an extension of the principal repayment of $1,000,000 and the First Interest Payment to January 31, 2018 and an extension fee of $10,000 payable in cash upon the execution of the loan amendment.

On December 29, 2017, the Company made an early payment of the First Interest Payment of $581,398 and the second interest payment of $30,492.

On January 30, 2018, the Company paid $1,000,000 to CW to reduce the principal balance from $4,500,000 to $3,500,000.

(ii) St. Marys Cement Inc. (Canada) ("SMC")

On May 29, 2015, the Company entered into a $300,000 demand loan with SMC. The loan bears interest at the rate of 9.5% per annum and has no regularly scheduled repayment terms. Interest expense of $28,500 (2015 - $11,633) was recorded on this loan. On February 19, 2016 and in connection with the loan agreement with CW, the SMC loan became postponed and subordinated to the loan payable to CW and the maturity date was established at the earlier of February 19, 2018 or the completion of a financing transaction resulting in a capital injection in excess of $4,500,000. On August 30, 2016, the Company entered into a $50,000 promissory note with SMC with an interest rate of 9.5%. On January 16, 2017, the Company issued 25,000 units to SMC as settlement of the $50,000 promissory note through its non-brokered private placement.

On March 2, 2018, the Company paid SMC $300,000 principal and $82,470 interest to settle the outstanding demand loan with SMC in full and discharge SMC's security interest in the Company's assets.

(iii) *Federal Economic Development Agency ("FedDev")*

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

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

9. LOANS PAYABLE (Continued)

Federal Economic Development Agency (Continued)

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

10. DECOMMISSIONING LIABILITIES

		2018
Balance, beginning of year	$	-
Assumed through business combination (Note 5)		**90,683**
Change in estimates and discount rate (Note 7)		**3,307**
Accretion expense		**2,025**
Balance, end of year	**$**	**96,015**

The Company's decommissioning liabilities result from the net ownership interests in petroleum and natural gas assets including a well site, gathering systems and production equipment. The total undiscounted amount to settle the Company's decommissioning liabilities is estimated at $117,808. The expected timing of the decommissioning expenditures extends to 2023. A risk-free rate of 1.86% - 2.18% and an inflation rate of 2% were used to calculate the present value of the decommissioning liabilities.

The risk-free rate used in the calculation of the net present value can have a significant impact on the carrying value of decommissioning liabilities. A 1% increase in the risk-free rate would decrease the decommissioning liability by an immaterial amount at December 31, 2018.

11. SHARE CAPITAL

Authorized

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

	Number of shares		Amount
Balance, as at January 1, 2017	10,996,245	$	10,668,295
Shares issued on subscription of shares	1,710,000		3,666,717
Conversion of loans payable (Note 7)	25,000		46,090
Share issuance costs	-		(702,807)
Balance, as at December 31, 2017	12,731,245		13,678,295
Shares issued business combination (Note 5)	4,041,313		6,223,622
Shares, warrants and Agent Warrants issued concurrent financing (Note 11)	2,641,873		4,068,484
Shares issued to purchase distribution rights (Note 11)	516,128		320,000
Share issuance costs	-		(689,647)
Shares issued on conversion of Agent Warrants	2,406		5,774
Expired warrants and Agent Warrants	-		69,862
Balance, as at December 31, 2018	**19,932,965**		**23,676,390**

11. SHARE CAPITAL (Continued)

Non-Brokered private placement

On January 17, 2017, the Company issued 25,000 units for total consideration of $50,000. The non-brokered private placement included the settlement of the loans payable to SMC. One unit represents one common share and one warrant. The warrants may be exercised for one additional common share at a price of $2.50 per common share until November 1, 2018.

On February 23, 2017, the Company issued 450,000 units for total consideration of $900,000 and 36,000 warrants as payment for the brokered private placement (the "Agent Warrants"). The Agent Warrants may be exercised to purchase one unit at a price of $2.00. In both instances, one unit represents one common share and one warrant.

The warrants may be exercised to purchase one additional common share at a price of $2.50 per share until February 23, 2019.

On April 18, 2017, the Company agreed to settle a contingent liability with the issuance of 20,000 common shares and 20,000 warrants that may be exercised to purchase one additional common share at a price of $2.50 per share until April 17, 2019.

Brokered private placement

On September 21, 2017, the Company issued 240,000 units for total consideration of $480,000 and 19,200 Agent Warrants as payment for the brokered private placement. The Agent Warrants may be exercised to purchase one unit at a price of $2.00. In both instances, one unit represents one common share and one warrant. The warrants may be exercised to purchase one additional common share at a price of $2.50 per share until September 20, 2019.

On December 28, 2017, the Company issued 1,000,000 units for total consideration of $2,400,000 and 80,000 units as payment for the brokered private placement. The Agent Warrants may be exercised to purchase one unit at a price of $2.40. In both instances, one unit represents one common share and one warrant. The warrants may be exercised to purchase one additional common share at a price of $3.00 per share until December 28, 2019.

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

For both the non-brokered private placements and the brokered private placements, the Company adopted a residual value method with respect to measurement of shares and warrants issued as private placement units. The Agent Warrants were measured at fair value amounting to $186,135 (2017: $302,400).

The total consideration was allocated between common shares and warrants with the warrants being measured first, at fair value amounting to $2,277,294 (2017 - $166,104), and the residual being applied to common shares.

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

Purchase of RFI LLC Canadian distribution rights

On November 30, 2018 the Company issued 516,128 common shares at a common share price of $0.62 as partial consideration for the purchase by the Company for the exclusive Canadian distribution rights to the RFI LLC products for a total share consideration of $320,000 as set out in Note 6.

Stock option plan

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

11. SHARE CAPITAL (Continued)

Stock option plan (Continued)

Stock Options	Number of options oustanding		Weighted average exercise price
Balance, as at January 1, 2017	857,500	$	3.08
Granted during period	240,000		2.00
Forfeited during the period	(12,500)		2.00
Balance, as at December 31, 2017	1,085,000		2.00
Granted during period	537,500		2.00
Balance, as at December 31, 2018	**1,622,500**	**$**	**2.00**

During the year ended December 31, 2018, the Company granted 537,500 (2017 – 240,000) stock options with a fair value of $352,145 (2017 – $67,002) at the date of grant to employees and directors. One third of the stock options vested immediately, one third after twelve months and one third after twenty four months. The fair value was determined using the Black-Scholes option pricing model at the weighted average assumptions:

	2018	2017
Risk-free interest rate	**1.97%**	1.03%
Estimated life of options (years)	**5.00**	5.00
Expected volatility	**80%**	30%
Price of shares at date of issuance	**$ 1.43**	$ 1.84
Exercise price of options	**$ 2.00**	$ 2.00
Dividend yield	**0%**	0%

Expected volatility was determined using the Company's actual share volatility and comparable companies' volatility at the time of the grant. As at December 31, 2018, 1,184,167 (2017 – 925,000) stock options were exercisable and the weighted average remaining contractual lives of the stock options was 3.2 years (2017 – 3.7 years).

Contributed surplus

Contributed surplus is comprised of the following:

		2018		2017
Stock options and other	**$**	**1,766,839**	$	1,281,717
Warrants and Agent Warrants		**2,826,576**		586,275
	$	**4,593,415**	$	1,867,992

11. SHARE CAPITAL (Continued)

Warrants

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

	Number of			
	Warrants	Agent Warrants	Total	Amount
Balance, as at January 1,2017	702,340	26,800	729,140	$ 117,771
Warrants issued on subscription of units	1,690,000	135,000	1,825,000	461,474
Conversion of loans payable	25,000	-	25,000	3,910
Warrants issued for settlement of debt	20,000	-	20,000	3,120
Balance, as at December 31,2017	2,437,340	161,800	2,599,140	586,275
Warrants issued on subscription of units	2,641,873	194,681	2,836,554	2,463,429
Warrant issuance costs	-	-	-	(153,266)
Exercise of Agent Warrants	2,406	(2,406)	-	-
Expired warrants and Agent warrants	(392,340)	(26,800)	(419,140)	(69,862)
Balance, as at December 31, 2018	**4,689,279**	**327,275**	**5,016,554**	**$ 2,826,576**

As at December 31, 2018, 4,689,279 warrants and 327,275 Agent Warrants were outstanding (2017 – 2,437,340 warrants and 161,800 Agent Warrants), with an average exercise price of $2.50 and $3.00, respectively and an average estimated life of 1.8 years. See Note 21 regarding the extension of 4,669,279 warrants.

For the warrants and Agent Warrants issued in the non-brokered private placement and the brokered private placement, the fair value has been determined as $2,463,429 using the Black-Scholes option pricing model and the following weighted average assumptions:

	2018	2017
Risk-free interest rate	**1.25%**	1.25%
Estimated life of warrants and Agent Warrants (years)	**2.00**	2.00
Expected volatility	**81%**	30%
Price of shares at date of issuance	**$ 2.33**	$ 1.84
Exercise price of warrants	**$ 3.00**	$ 2.50
Dividend yield	**0%**	0%

Deferred Share Units

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

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

As at December 31, 2018 there were 128,799 DSU's outstanding for which the Company recognized a $132,917 charge to contributed surplus (2017- $Nil).

12. REVENUE, CONTRACT RECEIVABLE AND DEFERRED REVENUE

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

The majority of the Company's technology services revenue was generated from a contract in which goods and services are typically provided over time. The Company's revenue of $1,357,949 for the year ended December 31, 2018, was derived from a single performance contractual obligation to construct a $3,597,452 algae production facility. Revenue for this contract is recognized on a percentage of completion basis. Deferred revenue is the difference between actual amounts invoiced and the amount of revenue recognized and is recorded in the consolidated statements of financial position.

For certain contracts, revenue is recognized when the terms of the commitment are completed and accepted by the customer. Payment is normally thirty days from the date of acceptance by the customer.

Stelco Algae Holdings

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

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

Eligible expenses which are to be reimbursed through OCEFA will be financed by the Company through a new promissory note arrangement with Stelco. The promissory note is a non-interest bearing revolving loan facility with a maximum borrowing capacity of $2.5 million and a maturity date of September 25, 2019. The promissory note bears interest at a rate of 15% per annum if cash reimbursements of eligible expenses received by Stelco are not repaid to the Company within 10 business days of receipt from OCE.

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

Deferred Revenue

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

		2018		2017
Balance, beginning of year	**$**	17,500	$	-
Revenue earned in the period		(1,432,949)		(8,904)
Payments received in the period		1,948,085		26,404
Balance, end of year	**$**	**532,636**	$	17,500

13. BREAK DOWN OF EXPENSES

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

		2018		2017
				$
Operating expenses				
Salaries and benefits	**$**	**1,617,039**	$	1,426,211
Rent		**81,352**		77,944
Travel and transportation		**203,135**		77,326
Project supplies and maintenance		**59,093**		59,096
Cost recoveries		**(55,161)**		(567,621)
	$	**1,905,457**	$	1,072,956
General and administrative expenses				
Legal	**$**	**438,195**	$	403,800
Computer		**99,828**		44,025
Consultants, advisors and other		**1,675,377**		313,555
	$	**2,213,400**	$	761,380

During 2018 the cost recoveries represent the reimbursement of salaries and benefits of employees that have been seconded to the National Research Council. During 2017 the cost recoveries represent the reimbursement of salaries and benefits of employees that have been seconded to the National Research Council and the reimbursement of salaries and overhead costs relating to NRG Cosia Carbon X-Prize competition.

14. FINANCIAL EXPENSES

		2018		2017
Interest expense on loans - CW and SMC	**$**	**523,406**	$	498,605
Interest accretion, net of imputed interest adjustment		**60,255**		91,568
Interest expense - insurance loan		**2,458**		4,153
Interest and bank charges		**5,586**		5,832
	$	**591,705**	$	600,158

15. INCOME TAXES

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

		2018		2017
Net loss before income taxes	**$**	**(5,373,510)**	$	(2,853,294)
Statutory tax rates		**26.57%**		26.50%
Expected income tax recovery		**(1,427,984)**		(756,123)
Increase in income tax due to the following:				
Permanent differences		**108,189**		(43,341)
Deferred tax assets not recognized		**1,319,795**		799,464
Income tax recovery	**$**	**-**	$	-

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

		2018		2017
Non-capital losses	**$**	**7,325,457**	$	4,010,678
Investment tax credits		**194,939**		-
Excess of undepreciated capital costs over net carrying value		**634,064**		129,592
Excess of net carrying amount over cumulative eligible capital		**(144,451)**		(161,653)
Other		**(31,874)**		83,784
Unrecognized deferred tax asset		**(7,978,135)**		(4,062,401)
	$	**-**	$	-

Included in the amounts above is approximately $2,401,000 of unrecognized deferred tax assets that were obtained through the Transaction.

As at December 31, 2018, the Company has non-capital loss carryforwards for income tax purposes, which may be available to reduce taxable income in future years. The amounts and expiry dates are as follows:

Non-capital loss carryforwards		
2027	$	205,651
2029		1,490,310
2030		3,815,131
2031		3,167,221
2032		3,328,751
2033		1,590,182
2034		2,778,684
2035		1,550,352
2036		2,631,319
2037		2,944,402
2038		3,977,048
	$	**27,479,051**

15. INCOME TAXES (Continued)

Included in the non-capital carryforward is $8,630,194 of losses which are restricted to oil and conventional natural gas businesses.

As at December 31, 2018, the Company has investment tax credits earned as a result of incurring Scientific Research and Experimental Development expenditures. Management records investment tax credits when there is reasonable assurance of collection. Investment tax credit amounts, which have not been recognized in these financial statements, and expiry dates are as follows:

Investment tax credits		2018		2017
2029	**$**	**97,068**	$	14,192
2030		**14,192**		97,068
2031		**83,679**		-
	$	**194,939**	$	111,260

16. RELATED PARTY TRANSACTIONS

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

		2018		2017
Transactions, during the period				
Loan interest to shareholders	**$**	**523,406**	$	498,121
Shareholder conversion of loans payable to shares		**-**		50,000
Pembina property management fee to a company with a common director		**82,500**		-
Balances at end of period				
Loan payable to CW and SMC (shareholders)	**$**	**3,500,000**	$	4,800,000

Key management compensation

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

Key management compensation is comprised of:

		2018		2017
Stock-based compensation for management and directors	**$**	**310,384**	$	33,561
Director and committee fees paid in cash		**43,500**		-
Salaries and employee benefits	**$**	**580,377**	$	463,573

17. SEGMENTED INFORMATION

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

The two reportable segments for year ended December 31, 2018, are Technology Services (including the production of microalgae biomass, consulting, engineering services and the construction of biomass production facilities) and Oil and Natural Gas production. For the year ended December 31, 2017 as the Company was primarily in the development stage it did not distinguish or group its operations on a geographical or any other basis and, accordingly, has a single reportable operating segment for disclosure purposes.

Reportable Segments

Consolidated Balance Sheet As at December 31, 2018	Technology Services	Oil and Conventional Natural Gas	Other	Total
Non-Current Assets				
Intangibles	1,707,500	-	634,667	2,342,167
Capital assets	640,784	3,614,817	-	4,255,601

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

18. CAPITAL MANAGEMENT

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

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

19. FINANCIAL INSTRUMENTS & RISK MANAGEMENT

Financial risk management objectives and policies

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

Credit risk

Credit risk arises from the probability that the counterparty will fail to perform its obligations. The Company is exposed to credit risk from its banks and receivables from its customers.

The Company's cash carrying amount is $2,823,743 (2017 - $1,281,883), representing the maximum exposure to credit risk from those financial assets. The Company monitors its exposure to credit risk by ensuring all cash is maintained with large chartered Canadian banks. The Company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investment in lower risk deposits of these chartered banks.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. As at December 31, 2018, there are no receivables that are outstanding more than three months.

The Company holds a secured promissory note receivable in the amount of $1,000,137 from Stelco. The Company monitors the note receivable balance which matures on September 25, 2019 (Note 12).

Liquidity risk

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

The following are the undiscounted amounts and contractual maturities of the Company's loans payable and anticipated timing of settlements of its other financial liabilities as at December 31, 2018:

	< 1 year	**1-2 years**	**>2 years**
	$	$	$
Accounts payable and accrued liabilities	1,080,630	-	-
Loans payable	3,697,928	170,472	-

19. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (Continued)

Interest rate risk

As at December 31, 2018, the Company does not have any variable rate debt. Management does not consider this to be a significant risk.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and conventional natural gas are impacted by not only the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. The nature of the Company's operations results in exposure to fluctuations in commodity prices. The Company's production is sold using "spot" pricing with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company currently has no commodity contracts outstanding at December 31, 2018.

Fair value

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

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

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

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

The estimated fair value of the financial instruments has been determined based on the Company's assessment of available market information and appropriate valuation methodologies. However, these estimates may not necessarily be indicative of the amounts that the Company could realize in a current market exchange. As at December 31, 2018, the Company did not have any financial assets or liabilities recorded at fair value. The Company employed a level 3 methodology in testing the oil and conventional natural gas property, plant and equipment for impairment (see Note 7).

20. COMMITMENTS AND CONTINGENCIES

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

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

20. COMMITMENTS AND CONTINGENCIES (Continued)

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

		Amount
2019	$	52,108
	$	52,108

21. SUBSEQUENT EVENTS

Extension of warrants

On January 4, 2019 the Company received approval from the TSX Venture Exchange to extend the expiry dates of five tranches of warrants.

The first tranche includes warrants exercisable to purchase 335,000 common shares of Pond at $2.50 per share, with an original expiry date of December 21, 2018; the second tranche includes warrants exercisable to purchase 450,000 common shares of Pond at $2.50 per share, with an original expiry date of February 23, 2019; the third tranche includes warrants exercisable to purchase 240,000 common shares of Pond at $2.50 per share, with an original expiry date of September 21, 2019; The fourth tranche includes warrants exercisable to purchase 1,000,000 common shares of Pond at $3.00 per share, with an original expiry date of December 28, 2019; and the fifth tranche includes warrants exercisable to purchase 2,644,279 common shares of Pond at $3.00 per share, with an original expiry date of January 30, 2020.

The expiry date of all five tranches of warrants has been extended to January 30, 2021. All other terms and conditions of each tranche of the warrants remain unchanged.

Acquisition of Regenurex Health Corporation

On January 30, 2019, the Corporation closed its acquisition of Regenurex Health Corporation ("Regenurex"). The acquisition was effected by way of a three-cornered amalgamation, under the provisions of the *Business Corporations Act* (British Columbia), pursuant to an Amalgamation Agreement. At closing, Regenurex and Pond Naturals Inc. amalgamated, with the resulting entity continuing to conduct Regenurex' s operations under the name "Pond Naturals Inc."

As consideration for their Regenurex shares, Regenurex shareholders will receive up to 6,250,000 Pond shares with such Pond shares valued by the parties, at the time of entering into the Amalgamation Agreement, at $0.80 per share, or $5,000,000 in the aggregate. The below summarizes the manner in which such Pond Shares shall be issued:

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

- Upon amalgamation, former holders of the common shares of Regenurex received 18,219,200 junior preferred shares of Pond Naturals Inc. The junior preferred shares are exchangeable at the election of the holders thereof until August 1, 2022, at which time they will be automatically exchanged, for an aggregate of 4,038,002 Pond shares (subject to a downward adjustment in the event any undisclosed liabilities of Regenurex over $50,000 are discovered within six months of closing).

21. SUBSEQUENT EVENTS (Continued)

Acquisition of Regenurex Health Corporation (Continued)

In connection with closing of the Transaction, all of the outstanding stock options and warrants of Regenurex were cancelled or exchanged for Regenurex common shares (and then subsequently exchanged for junior preferred shares of Pond Naturals Inc. pursuant to the amalgamation). In addition, at closing the Company capitalized Pond Naturals Inc., by way of equity subscription, with $275,000 (in addition to $225,000 previously paid by the Company to Regenurex in respect of astaxanthin pre-orders made prior to closing) in order to assist Pond Naturals Inc. in pursuing its business objectives.

As at April 26, 2019, the Company is in the process of obtaining information in order to complete the purchase price allocation in accordance with IFRS 3, Business Combinations.