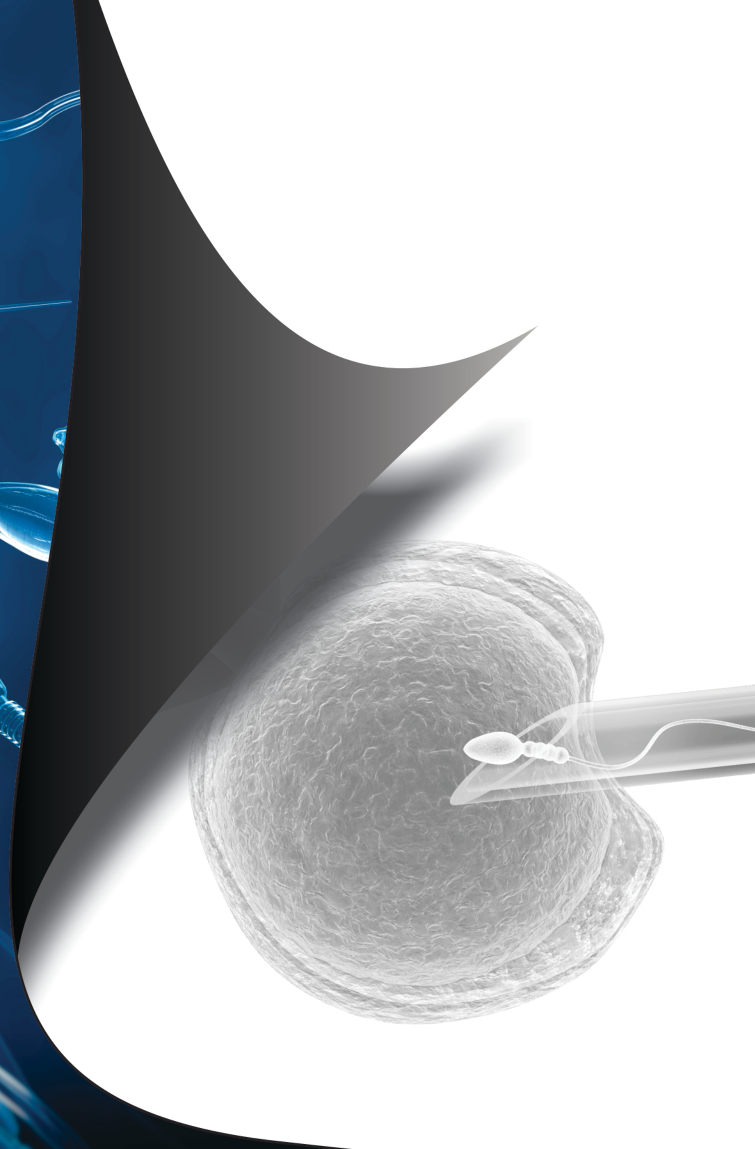
Innovations to Rely On

HAMILTON THORNE

2019

ANNUAL REPORT



Innovations to Rely On
HAMILTON THORNE
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www.hamiltonthorne.ltd

May 12, 2020

Dear Shareholders,

We are pleased to report that 2019 was another successful year for Hamilton Thorne Ltd. We reported record sales of $35.4 million, record adjusted EBITDA of $7.1 million, and record cash flow from operations of $6.4 million.

During 2019, we continued to develop our direct sales and support infrastructure and increased cross-selling between our US and European operations. We are pleased to report that through these sales and marketing initiatives we were able to generate approximately 15% organic growth for the year on a constant currency basis – 12% as reported. We believe that reviewing sales in constant currency is an important measure for looking at growth in our business, as it largely eliminates the effects of currency fluctuations.

We also completed a significant expansion of our product line, geographic coverage and scale when we acquired UK-based Planer Limited in August, adding a line of incubators, control-rate freezers, and monitoring products, as well as a base of operations in the UK.

We finished the year with a particularly strong 4th quarter, posting sales of $10.8 million and adjusted EBITDA of $2.2 million, a record quarter for Hamilton Thorne. Organic growth was 17% for the quarter, 18% in constant currency.

Outlook

Our outlook for 2020 is certainly impacted by the outbreak of the coronavirus disease (COVID-19). The first quarter of 2020 started off strong. We did, however, see reduced demand for some of our products and services in certain territories as the quarter developed, as many IVF clinics reduced their activities due to the COVID-19 pandemic. This reduction has continued in the second quarter, but we have also seen demand for our products return in some territories, notably China, which had been severely impacted in Q1, as well as parts of Europe that have reduced restrictions.

With the significant uncertainty of events and actions relating to COVID-19, much of what we write in this letter may be outdated by the time it is read; however, we continue to look toward the future development of the business.

In this regard we have made several investments in early 2020 that we remain committed to, including enhancing our direct sales and support through additional hiring in Germany and the US, and establishing direct sales and support infrastructure for France.

As we move past the COVID-19 pandemic, we also see a significant opportunity to grow revenues from the Planer product line by leveraging our established direct sales channels and expanding the business of other Hamilton Thorne brands through additional direct sales capabilities in the UK.

Given that the fluctuations in demand for many of our products and services will last for a period of time that is difficult to determine, we have also taken actions to reduce many non-essential expenses, reduce some personnel costs, and defer certain capital expenditures and new hiring.

As our acquisition program continues to be an important element in our growth plans, we are devoting additional resources to this area as well. With our historically strong cash flow from operations and our cash balance of approximately $15 million, augmented by our $3 million acquisition line of credit, we believe we are well-positioned to continue investing for growth.

The COVID-19 pandemic will eventually run its course. We remain optimistic that once this happens, the strong macroeconomic and demographic tailwinds that have driven the growth of our business over the past few years will continue for the foreseeable future.

On behalf of our Board, dedicated employees, and management team, we would like to thank our new and long-time shareholders for your continued support of Hamilton Thorne and look forward to updating you on our progress.

Sincerely,

David Wolf
Chief Executive Officer

Meg Spencer
Chairman of the Board

For additional financial information, corporate videos and investor communications, please visit our investor relations website at www.hamiltonthorne.ltd.

Hamilton Thorne Ltd.

Management Discussion and Analysis

December 31, 2019

The following discussion and analysis of the operations, results, and financial position of Hamilton Thorne Ltd. (the "Company") for the quarter and year-ended December 31, 2019 should be read in conjunction with the Company's December 31, 2019 audited consolidated financial statements and the related notes thereto. Such consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). All financial figures are in United States (US) dollars unless otherwise indicated. The effective date of this report is April 21, 2020.

Forward-Looking Statements

Certain statements in this management discussion and analysis ("MD&A") may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company and its subsidiaries, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as significant changes in market conditions, the inability of the Company to close sales and the inability of the Company to attract sufficient financing and including the risk factors summarized below under the heading "Risk Factors." New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the effective date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the effective date hereof or to reflect the occurrence of unanticipated events, except as required by securities legislation.

Use of Non-IFRS Measures

The Company has included earnings before interest, income taxes, depreciation, amortization, share-based compensation expense, changes in fair value of derivatives, and identified acquisition costs related to completed transactions ("Adjusted EBITDA") as a non-IFRS measure which is used by management as a measure of financial performance.

Adjusted EBITDA is not a recognized measure under IFRS. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net and comprehensive earnings determined in accordance with IFRS as an indicator of the Company's performance, or as an alternative to cash flows from operating, investing and financing activities as a measure of the Company's liquidity and cash flows. The Company's method of calculating Adjusted EBITDA may differ from the methods used by other issuers and, accordingly, the Company's Adjusted EBITDA may not be comparable to similarly named measures used by other issuers.

Description of Operations

Hamilton Thorne is a leading global provider of laboratory instruments, consumables, software and services to the assisted reproductive technology ("ART"), research, and cell biology markets. We develop, manufacture and market products and deliver services that are sold under our own brand names, as well as distribute an expanding array of third-party equipment and consumables to meet customer requirements, ranging from accessories to support our core products to the full complement of equipment to outfit a new laboratory.

Our proprietary instrument, equipment and software product lines include precision laser devices, imaging systems, micromanipulation systems, air purification systems, incubators, control rate freezers, and lab monitoring systems. Our laser products attach to standard inverted microscopes and operate as micro-surgical devices, enabling a wide array of scientific applications and In Vitro Fertilization ("IVF") procedures. Our image analysis systems are designed to bring quality, efficiency and reliability to studies of reproductive cells in the human fertility, animal sciences and reproductive toxicology fields. Our TrakJector™ Micromanipulation System is targeted to assist the embryologist in performing critical procedures in the IVF lab with a high level of precision and reliability. Our ZANDAIR™ line of air filtration products work to improve air quality in the laboratory. In August 2019, we acquired Planer Limited, a leading manufacturer of incubators, control rate freezers, and lab monitoring systems for the ART and cell biology markets worldwide and a provider of related services in the UK.

Our proprietary consumables and services cover a wide range of customer needs. Our GM501 family of products provides the IVF lab with a comprehensive cell culture media solution, including oocyte handling, sperm processing, embryo culture, and cryopreservation. Our line of glass micropipettes complements our TrakJector micromanipulator system. Our quality control assays are used in IVF labs for testing equipment and materials' toxicity to ensure the safest environment for successful embryo development. Our services cover a broad range of user needs, ranging from equipment service contract and maintenance programs; quality control testing services to manufacturers of medical devices, culture media and consumables used in IVF labs; and laboratory design and installation services.

The third-party products that we distribute cover a wide range of specialized equipment, software, accessories and consumables utilized by our IVF clinic, animal breeding, research, and cell biology customers, including microscopes, workstations, incubators, vitrification products, dishes and slides.

We sell our products and services through a growing direct sales force based in the US, Germany, France, and, following the acquisition of Planer, in the UK, and through distributors, to well over 1,000 fertility clinics, hospitals, pharmaceutical companies, biotechnology companies, educational institutions and other commercial and academic research establishments in over 75 countries.

The clinical products that we market are generally cleared for sale in the US, Europe (and other territories accepting a CE Mark), China, and Canada as well as a number of other markets.

The Company's production facilities are ISO 13485 certified. Our testing laboratory facilities are ISO 17025 certified.

Hamilton Thorne is headquartered in Beverly, Massachusetts. We have production, sales and/or laboratory facilities in the US, Germany, and the UK, and sales/support personnel in France, Singapore, and Malaysia. The Company's operations are conducted by its wholly owned subsidiaries, Hamilton Thorne, Inc. and Embryotech

Laboratories Inc., each a Delaware corporation, Gynemed & Co. GmbH KG, a German Limited Partnership, and Planer Limited, a UK limited company.

Unless otherwise specified, all financial data referred to in this MD&A is in US Dollars.

Key Financial Data and Comparative Results

	Years Ended December 31	
Statements of Operations	**2019**	**2018**
Sales	$35,358,409	$29,213,814
Gross profit	19,030,022	16,503,720
Operating expenses	15,805,307	12,908,134
Net income	793,275	2,960,355
Adjusted EBITDA	7,096,012	6,187,254
Basic earnings per share	$0.01	$0.03
Diluted earnings per share	$0.01	$0.03

Statements of Financial Position as at:	**Dec. 31, 19**	**Dec. 31, 18**
Cash	$12,795,983	$13,669,851
Working capital	11,228,774	14,216,160
Total assets	57,967,930	47,550,513
Non-current liabilities	7,073,999	8,178,629
Shareholders' equity	38,743,381	33,156,090

Quarterly Data	**Dec. 31 19**	**Sep. 30 19**	**Jun. 30 19**	**Mar. 31 19**	**Dec. 31 18**	**Sep. 30 18**	**Jun. 30 18**	**Mar. 31 18**
Sales	$10,841,099	$8,870,072	$8,009,181	$7,638,057	8,072,739	$6,833,457	$7,304,882	$7,002,736
Gross profit	6,121,965	4,751,531	4,180,727	3,975,799	4,574,834	3,850,825	4,139,528	3,938,533
Operating expenses	5,160,706	4,109,461	3,575,707	2,959,433	3,842,854	3,004,252	3,137,558	2,923,470
Net income (loss)	930,581	326,756	100,179	(564,242)	2,745,020	(544,694)	(133,092)	893,121
Adjusted EBITDA	2,233,064	1,805,848	1,551,787	1,505,314	1,750,245	1,428,959	1,511,834	1,496,216
Basic earnings per share	$0.007	$0.003	$0.001	($0.005)	$0.024	($0.005)	$0.000	$0.008
Diluted earnings per share	$0.008	$0.004	$0.001	($0.000)	$0.024	($0.005)	$0.000	$0.006

The above financial information, with the exception of Adjusted EBITDA data, has been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (“IASB”) and is stated in US dollars. (See “Use of Non-IFRS Measures,” “New Accounting Pronouncements - International Financial Reporting Standards,” and “Reconciliation of Net Income to Adjusted EBITDA.“)

Results of Operations for the year-ended December 31, 2019

Hamilton Thorne sales increased 21% to $35,358,409 for the year-ended December 31, 2019, an increase of $6,144,595 from $29,213,814 during the previous year. Sales were up due to organic growth in operations owned by the Company for more than one year augmented by the added revenues from the Planer acquisition. Sales into the human clinical market grew substantially, primarily driven by strong increases in the sales of third-party equipment, our own clinical instruments, particularly in the second half of the year, our newly introduced LYKOS DTS™ laser system, Gynemed branded consumables, and quality control testing assays, augmented by the contribution from the Planer acquisition. Sales into the animal breeding markets were up slightly for the year while sales into the research and cell biology markets were up substantially, largely driven by the contribution from the Planer acquisition as well as strong toxicology systems sales in the fourth quarter.

Gross profit for the year increased 15% or $2,526,302 to $19,030,022 in the year-ended December 31, 2019, compared to $16,503,720 in the previous year, primarily as a function of sales growth. Gross profit as a percentage of sales was down at 53.8% for the year-ended December 31, 2019 versus 56.5% for 2018 primarily due to product mix, particularly the impact of additional direct sales of third-party products in the US, and the addition of somewhat lower margin sales of Planer products, partially offset by increases in direct sales of higher margin proprietary equipment, branded consumables and quality control testing services sales.

Operating expenses increased 22% or $2,897,173 to $15,805,307 for the year-ended December 31, 2019, up from $12,908,134 for the previous year, primarily due to the addition of Planer expenses post-closing, increased acquisition expenses, and increased depreciation and amortization. Excluding acquisition-related expenses for both periods, operating expenses would have been up $2,272,174, or 18%. Operating expenses were also affected by continued strategic investments in research and development and sales and marketing resources.

Research and development expenses increased $589,762 (35%) from $1,703,941 to $2,293,703 for the year-ended December 31, 2019, primarily due to the addition of Planer's R&D expenses and new product amortization expenses, partially offset by expenses relating to the development of products which the Company capitalizes.

Sales and marketing expenses increased $985,236 (15%) from $6,644,734 to $7,629,970 for the year-ended December 31, 2019 primarily due to the addition of Planer expenses, including amortization of intangibles, increased investment in direct sales and support resources, and increased marketing and travel costs.

General and administrative expenses increased $1,331,755 (29%) from $4,559,459 to $5,881,634 for the year-ended December 31, 2019 primarily due to acquisition expenses related to the Planer acquisition, the addition of Planer's general and administrative expenses, increased compensation expense, and increased amortization and depreciation. Excluding acquisition-related expenses for both periods, general and administrative expenses would have increased by $697,176 (16%).

Net interest expense decreased $47,233 from $1,151,455 to $ 1,104,222 for the year-ended December 31, 2019 versus the prior year primarily due to reductions in the Company's revolving line of credit, convertible debentures due to conversion, and other term loan borrowings, plus interest earned on the Company's cash balances, partially offset by increased term debt in August to partially finance the Planer acquisition.

The change in fair value of derivative decreased $846,199 for the year ended December 31, 2019, from a gain of $572,621 in 2018 to a loss of $273,578, primarily due to the weakening of the euro, partially offset by the increase of the Company's share price between the measurement dates.

Foreign exchanges loss was $28,940 for the year-ended December 31, 2019, compared to $8,097 for the prior year due to the Company's functional currency structure and the addition of Planer.

Income tax expense was $1,024,700 for the year-ended December 31, 2019 compared to $48,300 in 2018. Current income tax expense decreased to $194,740 for the year-ended December 31, 2019 compared to $266,030 in 2018 due to favorable mix of rates between foreign and US states in 2019 versus 2018. Deferred income tax expense was $829,960 for the year-ended December 31, 2019 compared to a deferred income tax recovery of $217,730 for the year-ended December 31, 2018 due to the prior year recognition as of December 31, 2018 of approximately $1.1 million in additional deferred tax assets primarily generated by the Company's historical US federal NOL carryforwards. For 2019 and 2018, US federal income taxes were largely offset by the utilization of a portion of federal NOL's incurred in prior years.

Net income decreased to $793,275 for the year-ended December 31, 2019, versus $2,960,355 for the prior year, primarily attributable to increased revenues and profitability for the relevant periods offset by increased operating expenses, changes in fair value of derivative, increased income taxes, increased acquisition expense, and continued strategic investments in research and development and sales and marketing resources.

Other comprehensive income for the year-ended December 31, 2019 was $683,910 compared to comprehensive loss of 792,245 in 2018 due to foreign currency translation losses by the parent company from the foreign operations of its subsidiaries, primarily in Europe. Total comprehensive income for the year-ended December 31, 2019 was $1,477,185, versus $2,168,110 for the year-ended December 31, 2018.

Adjusted EBITDA for the year-ended December 31, 2019 increased 15% to $7,096,012 versus $6,187,254 in the prior year, due to revenue and gross profit growth, partially offset by increased operating expenses in the periods. See below for a reconciliation of Adjusted EBITDA to Net Income.

Results of Operations for the Fourth Quarter ended December 31, 2019

For the three months ended December 31, 2019, sales were up 34% from $8,072,739 to $10,841,097. Gross profit was up 34% to $6,121,965 versus $4,574,835 for the prior year. Sales and gross profit were up due to organic growth in operations owned by the Company for more than one year augmented by the added revenues and gross profit from the Planer acquisition. Gross profit percentage decreased from 56.7% to 56.5% for the quarter, primarily due to product mix. Quarterly gross profit percentage continued to increase sequentially in 2019. Operating expenses were up 34% to $5,160,706 versus $3,842,854 for the prior year primarily due to the addition of Planer operating expenses for the quarter.

In the fourth quarter of 2019, the Company's operating income increased 31% to $961,259. Net income decreased 66% to $930,581 while Adjusted EBITDA increased 28% to $2,233,064 versus net income of $2,745,020 and Adjusted EBITDA of $1,750,245 for the prior year fourth quarter. These changes were due primarily, in the case of net income, to the change in the fair value of derivative and increased income taxes and, and in the case of Adjusted EBITDA to substantially increased sales and gross profits partially offset by increased operating expenses. See below for a reconciliation of Adjusted EBITDA to Net Income.

Reconciliation of Adjusted EBITDA to Net Income

The following table reconciles Adjusted EBITDA to Net income:

	Three-Months and Year-ended December 31			
	Three Months		Year-Ended	
Reconciliation of Adjusted EBITDA	**2019**	**2018**	**2019**	**2018**
Sales	$10,841,099	$8,072,739	$35,358,409	$29,213,814
Net Income	930,581	2,745,020	793,275	2,960,355
Adjusted for:				
Interest	267,959	284,285	1,104,222	1,151,455
Taxes	480,908	(618,731)	1,024,700	48,300
Depreciation	167,289	52,943	607,093	204,318
Amortization	580,410	343,770	1,630,699	1,263,431
Acquisition expenses	12,318	19,818	712,317	87,318
Share-based comp expense	540,728	609,830	950,128	1,044,698
Change-fair value of derivative	(747,129)	(1,686,691)	273,578	(572,621)
Adjusted EBITDA	$2,233,064	$1,750,245	$7,096,012	$6,187,254
Adjusted EBITDA Margin	20.6%	21.7%	20.1%	21.2%

Outlook

The Company's revenue growth is driven by the overall growth of the markets that we serve, the ability of the Company to capture increased market share, the introduction of new products and services, and the execution of our acquisition strategy. Our profit growth will be driven by our ability to increase revenues, maintain high gross profit margins, and continue strong expense controls.

The Company's revenue growth was positively impacted in 2018 and 2019 and is expected to continue to be impacted in future periods as the results from its acquisitions, including cross-selling and market expansion opportunities, continue to be realized. The Company's gross profit margins as a percentage of sales were down in the quarter and year ended December 31, 2019 versus the prior year, primarily as a result of the increased sales of third-party equipment, plus an increase of sales of consumables through distribution channels, as well as, for the three-month period, the contribution from the somewhat lower margin Planer business. The Company sees the opportunity to increase margins over time by adding more branded products, increasing its direct sales into both new and existing markets, and over the long-term, by taking advantage of economies of scale as it grows.

The Company expects to see laser sales growth as adoption of its next generation LYKOS DTS™ laser system continues and the Company achieves regulatory clearance in additional markets. The Company expects imaging system sales into the ART markets to grow, as it continues to introduce additional hardware enhancements and new software modules to its CASA product line, as well as generating increased sales from its Oosight product line.

The Company expects to grow its quality control testing service and consumables revenue as our customers' activities increase, by capturing additional market share from both existing and new customers, through geographic expansion, and through the introduction of additional products and services.

In order to increase our recurring revenues, the Company continues to focus more of our efforts on the sale of accessories, consumables, software and services. As a result of the Embryotech acquisition, our services revenues increased substantially in 2017. The contribution from post-acquisition Gynemed sales, augmented by Embryotech quality control assay sales business, substantially increased the Company's sales of consumables in 2018 and 2019.

In 2017 the Company realized a significant increase in business in the Americas, in part as a result of the Embryotech acquisition. Sales in the Americas increased significantly in 2018 and 2019 and should continue to grow as our US-based direct sales team impacts growth. Sales in Europe increased significantly in the second quarter of 2017 as a result of the Gynemed acquisition and continue to grow, as recently augmented by the Planer acquisition. Sales in the Asia Pacific region continue to grow strongly, as a result of increased adoption of IVF in the region and the increase in new clinics. The Company's sales should be less impacted by foreign exchange fluctuations in the future, as most of our quality control testing consumables and services sales are in the US, and, following the Gynemed and Planer acquisitions, we now have substantial sales and production in Europe.

Beginning in late 2015, we began to increase our investment in research and development in order to increase the pace of innovation and new product development. The Company also increased spending in sales and marketing to increase market penetration by adding more direct sales and support resources and investing in market development. With the availability of certain Gynemed products for sale in the US and the addition of several third-party product lines, the Company has accelerated its investment in direct sales and support personnel and marketing programs leading to increases in sales and marketing expenses each year.

One element of our strategy is to broaden our offerings of products and services through strategic acquisitions of both operating companies and established product lines. In April 2015, we acquired the Oosight product line from a subsidiary of Perkin Elmer, Inc. In September 2016, we acquired Embryotech, a leading provider of quality control services and assays to the ART market. In April 2017, we acquired Gynemed, a leading provider of a broad range of branded and third-party products for the ART market into central Europe. In July 2018, we acquired the Zandair line of air purification and filtration equipment and its related consumables business.

In August 2019, we acquired Planer Ltd., a leading manufacturer of incubators, control rate freezers and lab monitoring systems for the ART and cell biology markets worldwide and a provider of related services in the UK.

The acquisition of Planer expands our product and service offerings and provides us with a platform for direct sales and support of the entire Hamilton Thorne product portfolio in the UK., which, in the short-term, will require increased investment in sales personnel.

The markets the Company serves are continually evolving and demand for the Company's products has periodically been impacted as certain procedures and research paths increase and decline in laboratory usage. In addition, as the field evolves, the Company's spending priorities may change or be accelerated to address new opportunities in those markets.

The recent outbreak of the coronavirus, or COVID-19, has added substantial uncertainty to the short- and mid-term outlook as the countries where the Company has significant operations, have required entities to limit or suspend business operations and have implemented travel restrictions and quarantine measures. The Company's operations are deemed to be part of the essential medical infrastructure in most places where it has personnel and it has implemented business continuity plans, including work from home programs, to maintain operations.

While it is not possible at this time to estimate the impact that COVID-19 could have on the Company, the continued spread of COVID-19 and the measures taken by the governments of countries affected has and is expected to continue to affect the demand for certain of the Company's products and services and could disrupt the supply chain and the manufacture or shipment of product inventories and adversely impact the Company's business, financial condition or results of operations. The COVID-19 outbreak and mitigation measures may also have an adverse impact on global economic conditions which could have an adverse effect on the Company's business and financial condition. The extent to which the COVID-19 outbreak impacts the Company's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain its impact.

The Company continues to work on its acquisition program with a goal of completing one or more meaningful acquisitions every twelve to eighteen months, however, the effects of the COVID-19 outbreak could affect this goal.

Liquidity

The Company's cash balance at December 31, 2019 was $12,795,983 as compared to $13,669,851 at December 31, 2018, a decrease of $873,868. Working capital decreased to $11,228,774 at December 31, 2019 from $14,216,160 at December 31, 2018. The decrease in cash balances was primarily due to the utilization of cash on hand as partial payment for the Planer acquisition, principal repayments to our bank under our term notes, reduction in our line of credit, and payment of lease obligations, partially offset by increased net income and changes in receivables, payables and inventory associated with the overall growth of our business, and in the case of working capital augmented by the remaining convertible debenture payable being classified as a current liability as it is now due in less than one year.

Cash generated by operations was $6,378,605 for the year ended December 31, 2019, compared to $4,307,213 in the comparable period of the prior year, an improvement of $2,071,392 or 48%, primarily due to improved operating results, and increased accounts payable, partially offset by managed increases in inventories attributable to the continued broadening of product offerings.

Cash used in investing activities was $7,646,040, primarily the investment in connection with the Planer acquisition, as well as intangible development costs and equipment for the year ended December 31, 2019, versus $1,747,024 in the prior period, which included the Zandair product line acquisition.

Cash provided by financing activities for the year ended December 31, 2019 was $393,567, attributable to the new $3 million term debt issued for the Planer acquisition and exercises of stock options and warrants, partially offset by scheduled term loan debt, reduction in our line of credit, and lease obligations, versus $5,366,291 of cash provided by financing activities in the prior period which included the September 2018 private placement equity raise.

The Company has generated cash from operations since 2013 and, in normal circumstances, expected to generate cash from operations in 2020. Given the uncertainties surrounding the COVID-19 outbreak, it is impossible to predict whether the Company will generate cash from operations in 2020. Regardless, the Company believes that its current cash position should be sufficient to support operations for the next twelve months.

In September 2016, the Company replaced its existing line of credit with a new bank credit facility consisting of a $5.5 million five-year term loan ($2.3 million of which was outstanding at December 31, 2019), and a $2.5 million revolving line of credit. In September 2019, the Company augmented this facility by increasing the availability under its revolving line of credit to $4.5 million ($nil of which was outstanding at December 31, 2019) and extending its maturity to July 2021, as well as renewing its $3,000,000 acquisition line of credit ($nil of which was outstanding as of December 31, 2019).

In April 2017, the Company augmented this facility by issuing a $4 million five-year term loan to partially finance the Gynemed acquisition ($1.8 million of which was outstanding at December 31, 2019). In August 2019, the Company augmented this facility by issuing a $3 million five-year term loan to partially finance the Planer acquisition ($2.8 million of which was outstanding at December 31, 2019).

In April 2017, the Company closed an equity private placement to finance the Gynemed acquisition, support future growth, and enhance working capital. The Company issued and sold 23,148,140 common shares for gross proceeds of $9.2 million (Cdn$12,500,000) and Brokers warrants to purchase 1,079,684 common shares at a price of Cdn$0.54 for a period of one year following closing. These warrants were exercised in full in April of 2018.

In April 2017, the Company issued €3,208,500 of convertible debentures as a portion of the purchase price of the acquisition of Gynemed ($3,498,773 based on the exchange rate at date of closing). The Debentures accrue interest at a rate of 4.25% per annum, payable in full at maturity in three years in April 2020, and were originally convertible, at the option of the holder, into 7,561,365 Hamilton Thorne common shares at a conversion price equal to the Euro equivalent (at time of closing) of Cdn$0.63 per share, based on a staged, three-year optional conversion schedule. The conversion feature has been recorded as a derivative liability as the exercise price may be adjusted upon the issuance or deemed issuance of additional common shares at a price less than the conversion price contained in the convertible debenture. The fair value of the derivative liability upon issuance was $2,219,099 as valued using an option pricing model. In June 2019, approximately $1.64 million of the outstanding principal amount of these Debentures were converted to 3,402,838 common shares.

In April 2018 the Company issued 1,079,684 common shares upon the exercise of broker warrants issued in the April 2017 equity placement.

In September 2018, the Company closed an equity private placement to support future acquisitions and enhance working capital. The Company issued and sold 9,090,910 common shares for gross proceeds of $7.7 million (Cdn$10,000,001) and Brokers warrants to purchase 545,455 common shares at a price of Cdn$1.10 for a period of one year following closing.

In 2018 the Company issued a total of 999,376 common shares upon the exercise of vested stock options for total proceeds of $139,345.

In June 2019 the holders of the Debentures issued in April 2017 exercised their vested conversion rights, exchanging approximately $1.64 million of the outstanding principal amount for 3,402,838 common shares in accordance with the terms of the Debentures. The approximately $2.0 million remaining principal amount of Debentures will be eligible for conversion at the option of the holders, into 4,145,527 common shares on the original three-year maturity date of April 28, 2020. The financial statement carrying values of the Debentures are higher due to accrued interest and increased fair value of the associated derivative.

In August 2019, the Company issued an aggregate of 1,414,283 common shares at a deemed issuance price of C$1.137 per share with a deemed aggregate value of approximately £1 million (approximately $1.2 million), as part of the consideration for the Planer acquisition. At that time the Company also drew down $3 million under its acquisition line of credit, which was then converted into the five-year term loan referenced above.

In September 2019, the Company issued 20,600 common shares upon the exercise of broker warrants issued in the September 2018 equity placement for total proceeds of $16,647; the remaining warrants expired unexercised.

In 2019 the Company issued a total of 2,584,993 common shares upon the exercise of vested stock options for total proceeds of $678,840.

The Company is continually exploring strategic options to grow its business and maximize shareholder value, including the acquisition of additional product lines or companies. In connection therewith, the Company continues to explore additional sources of funding to support its growth initiatives and augment its cash position including, raising additional equity, expanding its existing line of credit, and other financing alternatives.

Capital Resources

The Company expects that capital expenditures in 2020, other than those related to acquisition activities, will be primarily for new computers, software, product development costs, and equipment used in research, development and demonstrations, and will total approximately $1.9 million versus approximately $1.4 million expended in 2019. The Company expects these expenditures will be made with current funds or financed through equipment leasing arrangements.

The purpose of the April 2017 private placement was to finance the Gynemed acquisition, support future growth, and enhance working capital. The purpose of the September 2018 private placement was to support future acquisitions and enhance working capital.

Share Capital

As of December 31, 2019, there were 127,314,289 common shares issued and outstanding.

As of December 31, 2019, there were nil warrants to purchase common shares issued and outstanding.

Stock options issued to employees, directors, and consultants outstanding at December 31, 2019 totaled 10,636,332 at exercise prices ranging from Cdn $0.05 to Cdn $1.09. Options for 7,787,894 shares are exercisable as of December 31, 2019. Options expire at varying times from May 2020 through November 2029.

A total of 682,000 issued Restricted Share Units were outstanding at December 31, 2019; which vest in three annual installments beginning March 31, 2020.

In April 2017, the Company closed an equity private placement to finance the Gynemed acquisition, support future growth, and enhance working capital. The Company issued and sold 23,148,141 common shares for gross proceeds of $9.2 million (Cdn$12,500,000) and Broker warrants to purchase 1,079,684 common shares at a price of $0.54 for a period of one year following closing. These warrants were exercised in full in April 2018.

In April 2017, the Company issued €3,208,500 of convertible debentures as a portion of the purchase price of the acquisition of Gynemed ($3,498,773 based on the exchange rate at date of closing). The Debentures accrue interest at a rate of 4.25% per annum, payable in full after 36 months, and are convertible, at the option of the holder, into 7,561,365 Hamilton Thorne common shares at a conversion price equal to the Euro equivalent (at time of closing) of Cdn$0.63 per share, based on a staged, 3-year optional conversion schedule. The conversion feature has been recorded as a derivative liability as the exercise price may be adjusted upon the issuance or deemed issuance of additional common shares at a price less than the conversion price contained in the convertible debenture in conformity with IFRS requirements. The fair value of the derivative liability upon issuance was $2,219,099 as valued using an option pricing model.

In April 2017, the Company issued 5,525,523 common shares as a portion of the purchase price of the acquisition of Gynemed. The aggregate share component of the purchase price €2,139,000 (approximately $2.3 million) was issued at a deemed issuance price of Cdn$0.57 per share. The share consideration was placed in escrow pending final calculation of certain closing adjustments and to satisfy any possible indemnity claims. For purchase price consideration, the fair value of the issuance was determined to be $2,178,329 utilizing the Black-Scholes pricing model. The shares were released from escrow in May 2018.

In April 2018 the Company issued 1,079,684 common shares upon the exercise of broker warrants issued in the April 2017 equity placement. The warrants were exercised at a price of Cdn$0.54, for total proceeds of approximately $455,000, with no share issuance costs.

In September 2018, the Company closed an equity private placement to support future acquisitions and enhance working capital. The Company issued and sold 9,090,910 common shares for gross proceeds of $7.7 million (Cdn$10,000,001) and Brokers warrants to purchase 545,455 common shares at a price of Cdn$1.10 for a period of one year following closing.

In 2018 the Company issued a total of 999,376 common shares upon the exercise of vested stock options for total proceeds of $139,345.

In June 2019 the Company's shareholders approved the adoption of the Hamilton Thorne Ltd. 2019 Long-Term Equity Incentive Plan (the "2019 Equity Incentive Plan") to replace the Company's 2009 Stock Option Plan. Pursuant to the terms of the 2019 Equity Incentive Plan, the board of directors of the Company may from time to time, in its discretion, and in accordance with TSX Venture Exchange requirements, issue equity awards in the form of either stock options or restricted share units to any director, officer, employee, management company employee, or consultant of the Company or any affiliate determined by the board of directors as eligible for participation in the Plan. Awards issued pursuant to the 2019 Equity Incentive Plan may be exercisable or redeemable into a maximum of 6,000,000 common shares. All stock options previously issued under the Company's 2009 Stock Option Plan will continue in full force and effect, but no further options may be issued under the 2009 Stock Option Plan. For a more complete description of the 2019 Equity Incentive Plan, see the Company's 2019 Management Information Circular dated May 14, 2019 and filed on SEDAR.

In June 2019 the holders of the Debentures issued in April 2017 exercised their vested conversion rights, exchanging approximately $1.64 million of the outstanding principal amount for 3,402,838 common shares in accordance with the terms of the Debentures. The approximately $2.0 million remaining principal amount of Debentures will be eligible for conversion at the option of the holders, into 4,145,527 common shares on the original three-year maturity date of April 28, 2020.

In August 2019, the Company issued an aggregate of 1,414,283 common shares at a deemed issuance price of C$1.137 per share with a deemed aggregate value of approximately £1 million (approximately $1.2 million), as part of the consideration for the Planer acquisition. Approximately 74% of the share consideration was placed in escrow pending final calculation of certain closing adjustments and to satisfy any possible indemnity claims.

In September 2019, the Company issued 20,600 common shares upon the exercise of broker warrants issued in the September 2018 equity placement for total proceeds of $16,647; the balance expired unexercised.

In 2019, the Company issued a total of 2,584,993 common shares upon the exercise of vested stock options for total proceeds of $678,840.

Related Parties

In October 2006, a shareholder advanced the Company $50,000 in return for a promissory note payable upon demand with interest at the prime rate 5.5% at June 30, 2019), plus 1%. In November 2006, $25,000 of principal was repaid leaving $25,000 outstanding at June 30, 2019.

In April 2017 the Company issued 2,558,317 common shares and issued €1,485,535 ($1,619,931 based on the exchange rate at date of closing) of debentures convertible into 3,501,144 common shares to a Managing Director of the Company's Gynemed subsidiary as a portion of the purchase price of the acquisition of Gynemed. In addition, at the time of the closing of the acquisition, Gynemed entered into a lease with a real estate entity co-owned by a Managing Director of the Company's new Gynemed subsidiary. The five-year lease covers the premises occupied by Gynemed and calls for annual rental payments at market value, subject to cost of living escalators. In June 2019, the Managing Director of Gynemed exercised his vested conversion rights, exchanging approximately $760,000 of the outstanding principal amount for 1,575,514 common shares in accordance with the terms of the debentures. The approximately $925,000 remaining principal amount of Debentures will be eligible for conversion at the option of the holder, into 1,925,630 common shares on the original three-year maturity date of April 28, 2020.

New Accounting Pronouncements

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Board ("IASB").

Amendments to IFRS 3 – Business Combinations

The amendments to IFRS 3 are applicable for acquisitions occurring on or after January 1, 2020 and are adopted prospectively. These amendments to the implementation guidance of IFRS 3 clarify the definition of a business to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments to IFRS 3 – Business Combination may affect whether future acquisitions are accounted for as business combinations or asset acquisitions, along with the resulting allocation of the purchase price between the net identifiable assets acquired and goodwill.

Risk Factors

An investment in the Company must be considered highly speculative. There are trends and factors that may be beyond the Company's control which affect its operations and business. Such trends and factors include adverse changes in the conditions in the specific markets for the Company's products and services, the conditions in the broader market of laboratory instruments, consumables and accessories and conditions in the domestic or global economy generally. It is not possible for management to predict economic fluctuations and the impact of such fluctuations on its performance.

1. General Economic Conditions – The demand for capital asset purchases declined in the face of difficult economic conditions such as those experienced in the United States and much of the rest of the world during 2009 and continuing for several years. The Company's customers include pharmaceutical, medical device, biotech and chemical companies, laboratories, universities, IVF labs, hospitals, government agencies and public and private research institutions. Many factors, including public policy spending priorities, available resources and product and economic cycles, have a significant effect on the capital spending policies of these entities. These policies in turn can have a significant effect on the demand for its products.

Furthermore, although the Company conducts much of its business and reports financial results in US dollars, significant fluctuations in exchange rates between the US dollar and foreign currencies may adversely affect the Company's revenues and net income.

2. History of Losses – While the Company has been profitable since 2013, it has a history of losses and cannot predict if it will continue to achieve profitability for the foreseeable future. Its ability to continue to generate profits in the future will depend on a number of factors, including: (i) its ability to grow sales based on the continued market demand for its existing products and expected demand for additional products; (ii) costs relating to the commercialization, sale and marketing of its products; (iii) general and administrative costs relating to its operations; (iv) research and development costs; (v) charges related to purchases of technology or other assets; and (vi) interest and other financing expenses.

3. COVID-19 Coronavirus Risk - The recent outbreak of the coronavirus, or COVID-19, which has been declared by the World Health Organization to be a pandemic, has spread across the globe and is impacting worldwide economic activity. A public health pandemic, including COVID-19, poses the risk that the Company and its employees, contractors, customers, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities. Certain countries where the Company has significant operations, have required entities to limit or suspend business operations and have implemented travel restrictions and quarantine measures.

The extent to which the spread of COVID-19 impacts the Company's business, including its operations, will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak and the actions taken to contain or treat the COVID-19 outbreak. In particular, the continued spread of the COVID-19 globally could materially and adversely impact the Company's business including without limitation, employee health, workforce productivity, labour shortages and shutdowns (including as a result of government regulation and prevention measures), demand for the Company's products and services, customer and supplier relationships, increased costs of operations, supply chain stability, increased insurance premiums, limitations on travel, the availability of industry experts and personnel, and other factors that will depend on future developments beyond the Company's control, all of which may have a material and adverse effect on the its business, financial condition and results of operations. There can be no assurance that these pandemic diseases will not impact the Company's personnel and ultimately see its workforce productivity reduced or incur increased medical costs/insurance premiums as a result of these health risks.

In addition, the continued spread of COVID-19 impacts could adversely affect global economies and financial markets resulting in an economic downturn that could have an adverse effect on the Company's business and the market for the Company's securities. In particular, a prolonged outbreak could negatively impact stock markets, including the trading price of the Company's shares, could adversely impact the Company's ability to raise capital, and could cause continued interest rate volatility and movements that could make obtaining financing or refinancing the Company's debt obligations more challenging or more expensive. Any of these developments, and others, could have a material adverse effect on the Company's business and results of operations.

4. Limited Operating History in Certain Markets - The Company is a small company focused on commercializing, marketing and selling products in the ART and developmental biology research markets. Its operating history in some of these markets is limited. Certain products are only in the early stages of development. An investor should evaluate the likelihood of financial and operational success in light of the uncertainties and complexities present in an early-stage company, many of which are beyond the Company's control, including: (i) the Company's potential inability to distribute, sell and market its products; and (ii) the significant investment to achieve its

commercialization, marketing and sales objectives. Many of the Company's target markets are relatively new and its long-term growth prospects are uncertain. Should these markets fail to expand, it could have a materially adverse effect on the Company's business and financial condition.

5. Product Development - The development of additional products is subject to the risks of failure inherent in the development of new, state of the art products, laboratory devices and products based on new technologies. These risks include: (i) delays in product development or manufacturing; (ii) unplanned expenditures for product development or manufacturing; (iii) failure of new products to have the desired effect or an acceptable accuracy profile; (iv) emergence of superior or equivalent products; (v) failure by any potential collaborative partners to successfully develop products; and (vi) the dependence on third parties for the manufacture, development and sale of the Reporting Issuer's products. Because of these risks, the Company's research and development efforts or those of potential collaborative partners may not result in any commercially viable products. If a significant portion of these development efforts is not successfully completed, or any products are not commercially successful, the Company is less likely to generate revenue growth or become profitable. The failure to perform such activities could have a material adverse effect on the Company's business, financial condition and results of its operations.

6. Technological Advancement - The areas in which the Company is commercializing, distributing, and/or selling products involve rapidly developing technology. There can be no assurance that the Company will be able to establish itself in such fields, or, if established, that it will be able to maintain its position. There can be no assurance that the development by others of new or improved products will not make the Company's present and future products, if any, superfluous or obsolete.

7. Intellectual Property Rights - The Company has seven US patents issued, two of which inventions also have issued patents outside the US, and one additional UK patent issued, with additional applications still pending in other jurisdictions. The Company's success and ability to compete is dependent in part on these patents. Although management of Hamilton Thorne believes that the patents and associated trademarks and licenses are valid, there can be no assurance that they will not be challenged and subsequently invalidated and/or canceled. The invalidation or cancellation of any one or all of the patents or trademarks would significantly damage the Company's commercial prospects. Further, the Company may find it necessary to legally challenge parties infringing its patents or trademarks or licensed trademarks to enforce its rights thereto. There can be no assurance that any of the patents would ultimately be held valid or that efforts to defend any of the patents, trade secrets, know-how or other intellectual property rights would be successful.

The Company's future success will depend, in part, on its ability to obtain patents for newly developed products, maintain trade secrets protection, and operate without infringing on the proprietary rights of third parties or having third parties circumvent its rights. The patent position of regenerative medicine and medical device firms is uncertain and involves complex legal and financial questions for which, in some cases, certain important legal principles remain unresolved. There can be no assurance that the patent applications made in respect of the owned products will result in the issuance of patents, that the term of a patent will be extendable after it expires in due course, that any patent issued to the Company will provide it with any competitive advantages, that the patents of others will not impede the Company's ability to do business or that third parties will not be able to circumvent or successfully challenge the patents obtained in respect of the products. The cost of obtaining and maintaining patents is high. Furthermore, there can be no assurance that others will not independently develop similar products that duplicate any of the products, or, if patents are issued, design around the patent for the product. There can be no assurance that the Company's processes or products do not or will not infringe upon the patents of third parties, or that the scope of the Company's patents will successfully prevent third parties from developing similar and competitive products.

Much of the Company's know-how and technology may not be patentable, though they may constitute trade secrets. There can be no assurance, however, that the Company will be able to meaningfully protect its trade secrets. To help protect its intellectual property rights and proprietary technology, the Company requires employees, consultants, advisors and collaborators to enter into confidentiality agreements. There can be no assurance that these agreements will provide meaningful protection for the Company's trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure.

The Company's commercial success will also depend, in part, on not infringing on the patents or proprietary rights of others. There can be no assurance that the technologies and products used or developed by the Company will not infringe such rights. If such infringement occurs and the Company is not able to obtain a license from the relevant third party, it will not be able to continue the development, manufacture, use, or sale of any such infringing technology or product. There can be no assurance that necessary licenses to third-party technology will be available at all or on commercially reasonable terms. In some cases, litigation or other proceedings may be necessary to defend against or assert claims of infringement or to determine the scope and validity of the proprietary rights of third parties. Any potential litigation could result in substantial costs to, and diversion of, its resources and could have a material and adverse impact on the Company. An adverse outcome in any such litigation or proceeding could subject the Company to significant liabilities, require it to cease using the subject technology or require it to license the subject technology from the third party, all of which could have a material adverse effect on the Company's business.

The Company's future success and competitive position depends in part upon its ability to maintain its intellectual property portfolio. There can be no assurance that any patents will be issued on any existing or future patent applications. Even if such patents are issued, there can be no assurance that any patents issued or licensed to the Company will not be challenged. The Company's ability to establish and maintain a competitive position may be achieved in part by prosecuting claims against others who it believes to be infringing its rights. In addition, enforcement of the Company's patents in foreign jurisdictions will depend on the legal procedures in those jurisdictions. Even if such claims are found to be invalid, the Company's involvement in intellectual property litigation could have a material adverse effect on its ability to distribute any products that are the subject of such litigation. In addition, the Company's involvement in intellectual property litigation could result in significant expense, which could materially adversely affect the use or distribution of related intellectual property and divert the efforts of the Company's technical and management personnel from their principal responsibilities, whether or not such litigation is resolved in the Company's favor.

8. Competition - The Company is engaged in a rapidly evolving field. The Company faces competition for its products from numerous companies. Competition from other unknown entities and competition from research and academic institutions is also expected to increase. The market for solutions to the many fertility and developmental biology research problems is growing rapidly and is likely to attract new entrants. Numerous companies have focused on developing new devices and most, if not all, of these companies have greater financial and other resources and development capabilities than the Company. The Company's future success depends in part on its ability to maintain a competitive position, including its ability to further progress and develop its products for sale and commercialization. Other companies may succeed in commercializing products earlier than the Company or they may succeed in developing products that are more effective than the Company's products.

While the Company will seek to expand its technological capabilities in order to remain competitive, there can be no assurance that developments by others will not render its products non-competitive or that the Company will be able to keep pace with technological developments. The success of the Company's competitors and their products relative to the Company's products could have a material adverse effect on the future operations of the Company.

The markets in which the Company operates, including the ART market as a whole, has experienced industry consolidation in recent years through acquisitions, mergers, and decisions by industry players to partner. Consolidation across the industry, including by our competitors, many of which have greater financial and other resources than the Company, may enhance their capacity, abilities and resources and lower their cost structures, causing us to be at a competitive disadvantage.

9. Animal Facilities. Many of the Company's customers, as well as Embryotech, operate animal breeding facilities for food production and research. The biological samples, animal models and other materials used in these operations must be free of certain infectious agents such as certain viruses and bacteria because the presence of these contaminants could adversely impact human or animal health and can distort or compromise the quality of testing results. The presence of infectious agents in our animal facility could disrupt our operations, harm our reputation and result in decreased sales. If they occur, contaminations typically require cleaning up, renovating, disinfecting, retesting, and restarting production or services. Such cleanups result in inventory loss, cleanup and start-up costs, and reduced sales as a result of lost client orders and potentially credits for prior shipments. There also exists a risk that contaminations from our products or personnel working on site may affect our client's facilities, with similar impact to them for which we could be liable for damages. The testing services that we provide our clients are essential to IVF product development and manufacturing processes and are typically mandated by law. Notwithstanding, certain special interest groups categorically object to the use of animals for valid research and testing purposes. Historically, our core testing models including, mice, hamsters and other rodents have not been the subject of significant animal rights media attention. Any negative attention, threats or acts of vandalism directed against either our animal facilities or our third-party service providers the future could impair our ability to operate our business efficiently.

10. Data or computer system breach. As a routine element of our business, we collect, analyze, and retain substantial amounts of data pertaining to the testing services we conduct for our clients both in paper records and on our computer systems. Unauthorized third parties could attempt to gain entry to such paper records or computer systems for the purpose of stealing data or disrupting the systems. We believe that we have taken appropriate measures to protect them from intrusion, and we continue to improve and enhance our systems in this regard, but in the event that our efforts are unsuccessful, we could suffer significant harm. Our contracts with our clients typically contain provisions that require us to keep confidential the information generated from these testing services. In the event the confidentiality of such information was compromised, we could suffer significant harm to our reputation and could adversely impact our financial results.

11. Product Liability - The sale of the Company's products may expose it to potential liability resulting from the sale and use of such products. Liability might result from claims made directly by consumers or by laboratory companies. Hamilton Thorne currently maintains reasonable levels of product liability insurance. There can be no assurance that the Company will be able to renew its current insurance, renew it at a rate comparable to what it now pays, or that the coverage will be adequate to protect it against liability. If it were held liable for a claim or claims exceeding the limits of its current or future insurance coverage, or if coverage was discontinued for any reason, it could have a materially adverse effect on the Company's business and financial condition.

12. Government Regulation - The marketing of the Company's products into clinical IVF labs is subject to regulatory clearance by the FDA, Health Canada, and other governmental entities. As is the case in many areas of healthcare innovation, the regulations governing these markets are continually changing, are generally becoming more burdensome and carry risks and uncertainties. In addition, while some regulatory schemes require a single registration/clearance, others require periodic renewals. As a small company experiencing global growth in many markets, there may at times be conflicting regulatory compliance priorities or other challenges which could impact Hamilton Thorne's ability to commercialize its technologies in a timely manner or in-line with market needs, and

any delay in, or failure to receive or maintain market clearance, approval or renewal for its existing products or new products could adversely impact future performance or revenue. Additionally, the FDA and other regulatory authorities have broad enforcement powers. Regulatory enforcement or inquiries, or other increased scrutiny on the Company, could dissuade some clinics from using its products and adversely affect its reputation and the perceived safety and efficacy of its products.

The European Union regulatory bodies have finalized a new Medical Device Regulation (MDR), which replaced the existing Medical Device Directives (MDD) and provided a multiyear framework for transition and compliance. The MDR will change several aspects of the existing regulatory framework, such as updating clinical data requirements and introducing new ones, such as Unique Device Identification (UDI). There are currently a limited number of Notified Bodies qualified to oversee compliance to the new MDR. We may face significant uncertainties and delays as the MDR is rolled out and enforced by the European Union's Competent Authorities, creating risks in several areas, including the CE Marking process and data transparency, in the upcoming years.

The Company's business may also be affected in varying degrees by changes to government regulation of intellectual property or export controls. Such changes are beyond the control of the Company and the effect of any such changes cannot be predicted.

The Company conducts its business internationally and is subject to laws and regulations of several countries, which may affect its ability to access regulatory agencies and may affect the enforceability and value of its intellectual property rights. There can be no assurance that any sovereign government, including Canada's or the United States', will not establish laws or regulations that will be deleterious to the Company's interests. There is no assurance that the Company, as a Canadian corporation, will continue to have access to the regulatory agencies in any jurisdiction where it might want to obtain final regulatory approval, and there can be no assurance that the Company will be able to enforce its intellectual property rights in foreign jurisdictions.

13. Dependence upon Management - The Company is substantially dependent upon the services of a few key personnel. The loss of the services of any of these personnel could have a material adverse effect on the business of the Company. The Company maintains key man insurance on certain management personnel. The Company may not be able to attract and retain personnel on acceptable terms given the intense competition for such personnel among high technology enterprises, including biotechnology, and healthcare companies, universities and non-profit research institutions. If it loses any of these persons, or is unable to attract and retain qualified personnel, its business, financial condition and results of operations may be materially and adversely affected.

14. Competitive Conflicts with Customers - The Company operates in a complex environment where it may buy products or services from, sell products or services to and actively compete with other companies that operate in its markets. There can be no assurance that these companies will continue to do business with the Company under the same or similar terms as they had in the past. If one or more of these companies were to change its relationship with the Company or cease doing business with the Company, our business, financial condition and results of operations may be materially and adversely affected.

15. Dependence upon Key Suppliers - The Company's production operations depend on obtaining deliveries of components, sub-assemblies, and other materials in a timely manner. In some cases, the Company purchases on a just-in-time basis. Some products are available only from a limited number of suppliers or a single supplier or have extremely long lead times. Manufacturing some of the components, subassemblies and other materials that the Company uses in its production processes is an extremely complex process and the Company has occasionally experienced shortages, delays in delivery or quality problems with its suppliers. A prolonged inability to obtain adequate deliveries of components, subassemblies or other materials, or any other circumstance that requires the Company to seek alternative sources of supply, could significantly hinder its ability to deliver its products in a

timely manner, which could damage relationships with current and prospective customers and have a material adverse effect on the Company's business, financial condition and results of operations.

16. Financing – The Company has raised capital to finance operations, growth and acquisitions through a number of private placements of securities, including debentures, common shares and units comprised of common share and warrants, as described in the "Liquidity" and "Share Capital" sections above.

The Company has generated cash from operations since 2013 and in normal circumstances, expected to generate cash from operations in 2020. Given the uncertainties surrounding the COVID-19 outbreak, it is impossible to predict whether the Company will generate cash from operations in 2020. Regardless, the Company believes that its current cash position should be sufficient to support operations for the next twelve months.

In the event that sales do not continue as anticipated, expense increase beyond current trends, or the Company undertakes a significant acquisition, the Company may need to raise additional capital through public or private equity or debt financings to fund operations and refinance its debt.

In addition, the Company is continually exploring additional sources of funding to augment its cash position by raising additional equity, expanding the existing line of credit, and other financing alternatives. The Company is also exploring other strategic options to maximize shareholder value, including the acquisition of additional product lines or companies. There can be no assurance that funding will be available on terms acceptable to the Company, or at all. To the extent that the Company issues additional common shares as part of any financing, or as full or partial consideration in connection with future acquisitions, existing shareholders will be diluted and the trading price of its shares may also decrease.

17. International Operations – In April 2017, the Company completed the acquisition of Gynemed & Co. GmbH KG and in August 2019 completed the acquisition of Planer Ltd. The company now has significant sales, physical operations and employees outside the US. International operations expose the Company to numerous risks, including: changes in local political, economic, social, and labor conditions; restrictions on foreign ownership and investments, and stringent foreign exchange controls that might prevent the Company from repatriating cash earned in countries outside the U.S.; import and export requirements that may prevent the Company from offering products or providing services to a particular market and may increase operating costs; currency fluctuations; payment issues, including, longer payment cycles in some countries, increased credit risk, and higher levels of payment fraud; uncertainty and complexity regarding liability for and compliance with regulations governing the Company's products and services; liabilities arising from distributor relations and contracts outside the US; different employee/employer relationships, existence of workers' councils and labor unions; and other challenges caused by distance, language, and cultural differences, making it harder to do business in certain jurisdictions.

In addition, compliance with complex foreign and US laws and regulations that apply to international operations increase the Company's cost of doing business. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, data and patient privacy rules, medical products and diagnostics registration requirements, anti-corruption laws, such as the Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and antitrust and competition regulations, among others.

18. International Trade Risks – A significant portion of Hamilton Thorne's total revenues are derived from the sale of products and services outside its home markets. Given the United Kingdom's withdrawal from the European Union and the threatened imposition of tariffs and retaliatory measures by the US and China, there is significant political uncertainty at this time as to the continued status of trade between certain countries where Hamilton Thorne does business. Greater restrictions on free trade generally or the imposition by countries of tariffs or other non-tariff barriers could have a negative effect on the Company's ability to export its products and/or receive

payment in a timely manner. Changes in social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently develop, manufacture and sell products, as well as the general uncertainty and possible market volatility resulting from the foregoing could adversely affect our business.

Governments have, from time to time, established foreign exchange controls which could have a material adverse effect on the Company's business and financial condition, since such controls may limit its ability to flow funds or products into a particular country to meet its obligations under distribution agreements and to flow funds, which the Company is entitled to, in the form of sales proceeds, out of a particular country.

19. Brexit Risk - Following the acquisition of Planer Ltd. in August 2019, the Company now has significant business operations in the United Kingdom ("UK"). On January 31, 2020, as a result of a UK referendum held in June 2016 in which a majority of voters approved an exit ("Brexit") from the European Union ("EU"), the UK formally withdrew from the EU. Withdrawal began a transition period, expiring on December 31, 2020, for the UK to negotiate ongoing relations with the EU including, among other things, the terms of trade between the UK and the EU. At this time, it is not certain if the UK and the EU will reach a negotiated agreement or there will be a further extension. The outcome of the referendum and the continued uncertainty related to Brexit has caused volatility in global stock markets and foreign currency exchange rate fluctuations, and uncertainty about the terms and impact of Brexit may continue to do so in the future. Brexit could adversely affect UK, regional (including European), and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound and Euro, which in turn could adversely affect the Company and its customers. The inability to reach an agreement prior to the December 31, 2020 deadline could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate, and could result in additional costs and risks to the Company, including: supply chain disruption, regulatory uncertainty, additional regulatory costs in the event of divergent regulatory schemes, additional costs related to changes in tax treaties, and lack of access and/or increased costs due to tariffs or other measures for UK companies to the EU market and vice versa. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

20. Acquisitions Related Activities - As part of its business strategy, the Company is actively seeking to expand its product and service offerings through the acquisition of additional product lines, services and technologies or entire companies. Acquisitions involve numerous risks, including: the potential failure to achieve the expected benefits of the combination; difficulties in and the cost of integrating operations, technologies, services and personnel; diversion of financial and managerial resources from existing operations; risk of offering products and services with which the Company has little or no experience; potential write-offs of acquired assets or investments; potential loss of key employees; inability to generate sufficient revenue to offset acquisition or investment; the inability to maintain relationships with customers and partners of the acquired business; potential unknown liabilities associated with the acquired businesses; unanticipated expenses related to acquired technology and its integration into existing technology; negative impact to the Company's results of operations because of the depreciation and amortization of amounts related to acquired intangible assets, fixed assets and deferred compensation, and the loss of acquired deferred revenue; delays in customer purchases due to uncertainty; the need to implement controls, procedures and policies appropriate for a public company at companies that prior to the acquisition lacked such controls, procedures and policies; possible litigation and associated costs; and challenges caused by distance, language and cultural differences.

In addition, if the Company finances acquisitions by issuing convertible debt or equity securities, existing stockholders may be diluted which could affect the market price of the Company's stock. Further, if the Company fails to properly evaluate and execute acquisitions the Company's business and prospects may be seriously harmed and the value of shareholder's investment may decline.

21. Ability to Use NOLs - Under Section 382 of the US Internal Revenue Code of 1986, as amended (the "Code"), if a corporation undergoes an "ownership change," generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period, the corporation's ability to use its pre-change US federal net operating loss ("NOL") carryforwards to offset its post-change income *may* be limited. Since our formation, we have raised capital and funded acquisitions through the issuance of capital stock, warrants, convertible debentures and other instruments which, combined with the equity holder's subsequent dispositions, *may* have resulted in one or more ownership changes, as defined by Section 382 of the Code. We have recently completed a preliminary study to assess whether any ownership change has occurred since our formation and we believe that we have not experienced an ownership change as defined in Section 382. If we experience an ownership change at any time since our formation, our NOL carryforwards may not be available, or their utilization could be subject to an annual limitation under Section 382. In addition, since we may raise additional funding to finance our operations, fund future acquisitions or for other purposes, we may undergo further ownership changes in the future, in which event, our ability to use our pre-change NOL carryforwards to offset United States federal taxable income may be subject to limitations, which could potentially result in increased future tax liability.

22. Deferred Tax Asset - As of December 31, 2019, the Company had $3.7 million in net deferred tax assets. These deferred tax assets are primarily NOL carryforwards that can be used to offset taxable income and reduce income taxes payable in future periods. We periodically determine the probability of the realization of deferred tax assets, using significant judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings, applicable tax rates, the possibility of a change in ownership (as discussed above) that could limit the utilization of these NOL carryforwards and tax planning strategies. If we determine in the future that there is not sufficient positive evidence to support the valuation of these assets, due to the risk factors described herein or other factors, we may be required to record a valuation allowance to reduce our deferred tax assets. Any such reduction could result in material non-cash expenses in the period in which the valuation allowance is recorded and could have a material adverse effect on our results of operations.

23. Bank Financing - The Company currently maintains a $5,500,000 five-year term loan maturing in September 2021 ($2.3 million of which was outstanding as of December 31, 2019), a $4,000,000 five-year term loan maturing in April 2022 ($1.8 million of which was outstanding as of December 31, 2019), a $3,000,000 five-year term loan maturing in August 2024 ($2.8 million of which was outstanding as of December 31, 2019), and a $4.5 million formula-based, secured line of credit with a US bank which is scheduled to mature in July 2021 ($nil of which was outstanding as of December 31, 2019). The Company also maintains a $3.0 million acquisition line of credit ($nil of which was outstanding as of December 31, 2019). These credit facilities are collateralized by all of the operating assets of the Company. If the Company is unable to pay its principal or interest obligations when due or refinance or pay off the debt to the bank when it matures, or if there were otherwise an event of default, the Company's business, financial condition and results of operations may be materially and adversely affected.

24. Dividends - The Company intends to retain any future earnings to finance the growth and development of its business and does not plan to pay cash dividends in the foreseeable future, if ever.

Hamilton Thorne Ltd.

Consolidated Financial Statements

December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of Hamilton Thorne Ltd.:

Opinion

We have audited the consolidated financial statements of Hamilton Thorne Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 John Muffolini.

MNP LLP

Toronto, Ontario
April 21, 2020

Chartered Professional Accountants
Licensed Public Accountants

MNP

Hamilton Thorne Ltd.
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(Expressed in U.S. Dollars)

	December 31, 2019	December 31, 2018
Assets		
Current		
Cash and cash equivalents	$ 12,795,983	$ 13,669,851
Accounts receivable (note 16)	3,133,492	2,984,299
Inventories (note 4)	6,788,010	3,303,986
Income tax receivable	-	128,694
Prepaid expenses	661,839	345,124
Total current assets	23,379,324	20,431,954
Property and equipment (note 5)	878,892	648,233
Right of use assets (note 13)	2,629,201	-
Long-term deposits	116,116	116,116
Deferred tax asset (note 12)	3,702,820	5,334,600
Intangible assets (notes 3 and 6)	16,465,177	13,154,610
Goodwill (notes 3 and 6)	10,796,400	7,865,000
Total assets	$ 57,967,930	$ 47,550,513
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 5,347,137	$ 2,592,669
Current portion of bank term notes (note 7)	2,542,786	1,846,465
Current portion of lease liability (note 13)	653,479	-
Convertible debentures payable (note 7)	2,238,479	-
Derivative liability (note 7)	749,434	1,699,233
Income tax payable (note 12)	219,861	-
Deferred revenue	399,374	77,427
Total current liabilities	12,150,550	6,215,794
Long-term debt (note 7)	4,383,149	7,736,270
Long-term lease liability (note 13)	2,024,889	-
Deferred tax liability (note 12)	656,310	349,300
Other liabilities	9,651	93,059
Total liabilities	19,224,549	14,394,423
Shareholders' Equity		
Common shares (note 8)	53,672,597	49,777,402
Warrants (notes 8 and 9)	-	81,859
Contributed surplus	6,048,981	5,752,211
Accumulated other comprehensive income	1,037,259	353,349
Accumulated deficit	(22,015,456)	(22,808,731)
Total shareholders' equity	38,743,381	33,156,090
Total liabilities and shareholders' equity	$ 57,967,930	$ 47,550,513

Approved by the Board of Directors:

/s/ "Bruno Maruzzo"
Bruno Maruzzo
Chairman of the Audit Committee

/s/ "Dean Gendron"
Dean Gendron
Director, Member of the Audit Committee

The accompanying notes are an integral part of these consolidated financial statements

Hamilton Thorne Ltd.

Consolidated Statements of Operations and Comprehensive Income

For the years ended December 31, 2019 and 2018

(Expressed in U.S. Dollars)

		2019		*2018*
Sales	**$**	**35,358,409**	$	29,213,814
Cost of sales		**16,328,387**		12,710,094
Gross profit		**19,030,022**		16,503,720
Expenses				
Research and development		**2,293,703**		1,703,941
Sales and marketing		**7,629,970**		6,644,734
General and administrative		**5,881,634**		4,559,459
Total expenses		**15,805,307**		12,908,134
Income from operations		**3,224,715**		3,595,586
Other income (expense)				
Interest expense including accretion (note 7)		**(1,104,222)**		(1,151,455)
Change in fair value of derivative (note 7)		**(273,578)**		572,621
Foreign exchange loss		**(28,940)**		(8,097)
Income before taxes		**1,817,975**		3,008,655
Income tax (expense) (note 12)				
Current (expense)		**(194,740)**		(266,030)
Deferred tax (expense) recovery		**(829,960)**		217,730
Total Income tax (expense)		**(1,024,700)**		(48,300)
Net income		**793,275**		2,960,355
Other comprehensive income:				
Items that may be reclassified subsequently to net income:				
Foreign currency translation income (loss)		**683,910**		(792,245)
Other comprehensive income (loss)	**$**	**683,910**	$	(792,245)
Comprehensive income	**$**	**1,477,185**	$	2,168,110
Earnings per share on net income:				
Basic	**$**	**0.01**	$	0.03
Diluted	**$**	**0.01**	$	0.03
Weighted average number of common shares outstanding (note 8):				
Basic		**122,916,339**		112,628,203
Diluted		**132,299,163**		126,080,988

The accompanying notes are an integral part of these consolidated financial statements

(Expressed in U.S. Dollars)

	Common shares				Accumulated Other Comprehensive	Accumulated	
	Shares	Dollars	Warrants	Contributed Surplus	Income	Deficit	Total
December 31, 2017	**108,721,605**	**$ 42,151,571**	**$ 634,184**	**$ 3,516,629**	**$ 1,145,594**	**$ (25,769,086)**	**$ 21,678,892**
Share-based payments expense (note 10)	-	-	-	1,044,698	-	-	1,044,698
Tax effect of share-based payments expense (note 12)	-	-	-	556,700	-	-	556,700
Issuance of common shares - exercise of warrants (notes 8 and 9)	1,079,684	457,310	(634,184)	634,184	-	-	457,310
Issuance of common shares - exercise of options (note 10)	999,376	139,345	-	-	-	-	139,345
Issuance of common shares, net of expenses - private placement (notes 8 and 9)	9,090,910	7,111,035	-	-	-	-	7,111,035
Issuance of warrants, net of expenses - private placement (notes 8 and 9)	-	(81,859)	81,859	-	-	-	-
Net income and Comprehensive income for the year	-	-	-	-	(792,245)	2,960,355	2,168,110
December 31, 2018	**119,891,575**	**$ 49,777,402**	**$ 81,859**	**$ 5,752,211**	**$ 353,349**	**$ (22,808,731)**	**$ 33,156,090**
Share-based payments expense (note 10)	-	-	-	950,128	-	-	950,128
Tax effect of share-based payments expense (note 12)	-	-	-	(556,700)	-	-	(556,700)
Issuance of common shares - exercise of options (note 10)	2,584,993	775,498	-	(96,658)	-	-	678,840
Issuance of common shares - partial conversion of debentures (notes 7 and 8)	3,402,838	2,070,150	-	-	-	-	2,070,150
Issuance of common shares, net of expenses - acquisition (notes 3 and 8)	1,414,283	951,041	-	-	-	-	951,041
Issuance of common shares - exercise of warrants (notes 8 and 9)	20,600	98,506	(81,859)	-	-	-	16,647
Net income and Comprehensive income for the year	-	-	-	-	683,910	793,275	1,477,185
December 31, 2019	**127,314,289**	**$ 53,672,597**	**$ -**	**$ 6,048,981**	**$ 1,037,259**	**$ (22,015,456)**	**$ 38,743,381**

The accompanying notes are an integral part of these consolidated financial statements

Hamilton Thorne Ltd.

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in U.S. Dollars)

		2019		2018
Cash flows from operating activities:				
Net income for the year	**$**	**793,275**	$	2,960,355
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		**2,237,792**		1,467,183
Non-cash interest expense and accretion (note 7)		**667,714**		795,821
Share-based compensation expense (note 10)		**950,128**		1,044,698
Change in fair value of derivative (note 7)		**273,578**		(572,621)
Deferred tax (expense) recovery		**829,960**		(217,730)
Changes in non-cash operating assets and liabilities:				
Accounts receivable		**790,754**		(218,007)
Inventories		**(1,728,166)**		(852,559)
Prepaid expenses		**(316,715)**		65,979
Accounts payable and accrued liabilities		**1,774,337**		113,284
Income tax (receivable) payable		**-**		(251,664)
Deferred revenue		**105,948**		14,918
Other liabilities		**-**		(42,444)
Net cash flows provided by operating activities		**6,378,605**		4,307,213
Cash flows used in investing activities:				
Purchase of property and equipment (note 5)		**(251,040)**		(192,875)
Disposition of property and equipment (note 5)		**37,321**		-
Cash paid for acquisitions, net of cash acquired (note 3)		**(6,267,649)**		(599,900)
Additions to intangible assets (note 6)		**(1,164,672)**		(954,249)
Net cash flows used in investing activities		**(7,646,040)**		(1,747,024)
Cash flows used in financing activities:				
Payments on notes (note 7)		**-**		(5,826)
Payments on revolving line of credit		**(800,000)**		(400,000)
Proceeds from term note debt		**3,000,000**		-
Payments on term note debt		**(1,986,506)**		(1,935,573)
Payments on lease obligations		**(515,414)**		-
Issuance of common share units (note 8)		**-**		7,111,035
Issuance of common shares - exercises of warrants, net of expenses (notes 8 and 9)		**16,647**		457,310
Issuance of common shares - option exercises (note 10)		**678,840**		139,345
Net cash flows used in financing activities		**393,567**		5,366,291
Net (decrease) increase in cash and cash equivalents		**(873,868)**		7,926,480
Cash and cash equivalents, beginning of year		**13,669,851**		5,743,371
Cash and cash equivalents, end of year	**$**	**12,795,983**	$	13,669,851
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest - net	**$**	**206,308**	$	355,634
Taxes	**$**	**88,187**	$	209,707

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of Operations

The Company's principal business is the development, manufacture and sale of precision instruments, consumables, software and services the assisted reproductive technologies ("ART"), research, and cell biology markets.

Hamilton Thorne Ltd. (the "Company" or "HTL") was created on October 28, 2009 by the reverse asset acquisition by Hamilton Thorne, Inc. ("HTI") of Calotto Capital Inc. ("Calotto"). Calotto was incorporated under the Business Corporations Act (Ontario) on February 19, 2007 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). HTL's shares are traded as a Tier 2 Corporation, under the stock symbol HTL.

The Company operates from its headquarters in Beverly, Massachusetts, USA. Its registered office is located at 77 King Street West, Suite 400, Toronto-Dominion Centre Toronto, ON M5K 0A1 Canada.

The consolidated financial statements of the Company for the years ended December 31, 2019 and 2018 were authorized for issuance by the Board of Directors and the Audit Committee on April 21, 2020.

2. Basis of Preparation

(a) Statement of Compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

(b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis, with the exception of cash equivalents and certain financial instruments measured at fair value.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in US dollars. HTL's functional currency is Canadian dollars, which is then translated to US dollars for presentation purposes. The functional currency of HTL's US-based subsidiaries Hamilton Thorne, Inc. and Embryotech Laboratories Inc. is US dollars. The functional currency of Gynemed GmbH & Co. KG and HTL Holding GmbH is Euros, which is then translated to US dollars for presentation purposes. The functional currency of Sunbury Holdings Limited, Planer Limited and Hamilton Thorne Holdings UK Limited is British Pound Sterling, which is then translated to US dollars for presentation purposes. Once the functional currency of an entity is determined, it should be used consistently, unless significant changes in economic facts, events and conditions indicate that the functional currency was changed.

(d) Significant Accounting Policies

The accounting policies outlined below have been applied consistently to all periods presented in these consolidated financial statements except as described in recent accounting pronouncements and note 13.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Hamilton Thorne, Inc., Embryotech Laboratories Inc., Gynemed GmbH & Co. KG, HTL Holding GmbH, Sunbury Holdings Limited, Planer Limited and Hamilton Thorne Holdings UK Limited. The results of Planer Limited and Hamilton Thorne Holding UK Limited are incorporated from August 13 (date of acquisition) to December 31, 2019. All inter-company balances and transactions have been eliminated on consolidation.

Use of Estimates and Critical Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make critical judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant items, subject to estimates and assumptions more fully described in the annual consolidated financial statements include allowances for sales, provision for expected credit losses, reserve for inventory obsolescence, impairment of non-financial assets, share-based payment expense, and income taxes. Additional items include, but are not limited to, the estimated useful life of assets, convertible debentures, warrants, and legal liabilities. Actual results could differ from those estimates.

(a) Sales allowances

Sales allowances for customer promotions and discounts are recorded as a reduction of revenue when the related revenue is recognized. For returns, the Company estimates these amounts using a combination of historical experience and current market conditions. These estimates are reviewed periodically against actual results and any adjustments are recorded at that time as an increase or decrease to net sales. The reserve is $22,100 as at December 31, 2019 and 2018.

(b) Expected credit loss provision

The Company performs impairment testing annually for accounts receivable in accordance with IFRS 9. The Expected Credit Loss ("ECL") model requires considerable judgement, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12 month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs.

The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results were used to calculate the run rates of default which were then applied over the expected life of the trade receivables, adjusted for forward looking estimates.

(c) Reserve for inventory obsolescence

The Company values inventory at the lower of cost or net realizable value. Based upon a consideration of quantities on hand, actual and projected sales volume, anticipated product selling prices and product lines planned to be discontinued, slow-moving and obsolete inventory is written down to its net realizable value. Furthermore, significant changes in demand for the Company's products would impact management's estimates in establishing its inventory provision. Management estimates are estimated on a quarterly basis and a further adjustment to reduce inventory to its net realizable value is recorded, as an increase to cost of sales, when deemed necessary.

(d) Impairment of goodwill

Goodwill is tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of intangible assets with definite lives (deferred development costs, customer lists, trade names, and quality management systems) and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in the consolidated statement of operations and comprehensive income. The assessment of fair values requires the use of estimates and assumptions related to future operating performance and discount rates; differences in these estimates and assumptions could have a significant impact on the consolidated financial statements. During the years ended December 31, 2019 and 2018, the Company has not recognized a write-down of goodwill or intangibles.

(e) Impairment of non-financial assets

Non-financial assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount in earnings of continuing or discontinued operations, as appropriate.

(f) Share-based payments expense

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. This estimate requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, forfeiture rate and dividend yield of the share option.

(g) Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes, including the probability of recovery of deferred tax assets. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made. The Company recognizes tax assets for loss carryforwards when they are more likely than not to be realized, based on the Company's projected income in that tax jurisdiction and whether other restrictions on the realization of the tax losses are likely to occur.

Business Combinations

Acquisitions have been accounted for as business combinations using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are recognized in income and comprehensive income as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 and IAS 19 respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payments at the acquisition date; and

- leases in accordance with IFRS 16, whereby the lease is recognized in accordance with the present value of remaining payments less any adjustment for a lease above or below market rates.

When the consideration transferred by the entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits held with banks with original maturities of less than 90 days. Cash equivalents are carried at fair value and accounts may be subject to withdrawal restrictions or penalties.

Inventories

Inventories are measured at the lower of cost and net realizable value. Costs of inventory are calculated on an average cost basis. In determining net realizable value, the Company considers factors such as current selling price, product lifecycle including cost to sell, and future sales volumes. Allowances for slow-moving or obsolete inventory are recorded when considered appropriate.

Property and Equipment

Property and equipment are recorded at cost and are amortized over their estimated useful lives using the following methods and rates:

Machinery and equipment	2-5 years straight line
Leasehold improvements	Lesser of useful life or term of the lease
Furniture and fixtures	5-10 years straight line

Capital Leases

The Company's policy is to record leases, which transfer substantially all benefits and risks incidental to ownership of property, as acquisition of property and equipment and to record the corresponding obligations as liabilities. Obligations under capital leases are reduced by rental payments, net of imputed interest.

Impairment of Non-financial Assets

Non-financial assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management reviews the carrying value of the assets and considers whether an impairment charge should be recorded. The review is based on the assessment of technology changes, the Company's intended use, and on the projected estimated discounted cash flows expected to be generated from the underlying assets.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the fair value of money and the uses specific to the asset for which the estimate of future cash flows has been adjusted.

Revenue Recognition

The Company determines revenue recognition through the following steps: a) identification of the contract with a customer; b) identification of the performance obligations in the contract; c) determination of the transaction price; d) allocation of the transaction price for the performance obligations in the contract and e) recognition of revenue when the Company satisfies a performance obligation.

Revenue is recognized when control of a product or service performed is transferred to a customer. Revenue is measured based on the consideration specified in a contract with a customer, net of returns and discounts. Accruals for sales returns are calculated based on the best estimate of the amount of product that will ultimately be returned by customers, reflecting historical experience. For customer contracts where the Company expects to be paid within one year, the consideration is not adjusted for the effects of a financing component.

The Company also sells service contracts for service and maintenance of the underlying product beyond the warranty period. The Company defers revenue upon entering into the agreement and recognizes revenue ratably over the contract period. Unrecognized revenue at period end is shown on the statement of financial position as deferred revenue (contract liabilities).

Intangible Assets

Internally generated intangible assets, such as deferred development costs, are capitalized when the product or process is technically and commercially feasible and the Company has sufficient resources to complete development. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Amortization of the internally generated intangible assets begins when the development is complete and the asset is available for use.

Intangible assets are amortized on a straight line basis over the period of their expected future benefit using the following rates:

Development costs and acquired product rights	5 years
Customer lists	10-15 years
Trade names and trade secrets	10 years

Income Taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit and loss except to the extent that it relates to items recognized directly in equity or other comprehensive income. Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rate enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years. Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates. Deferred tax assets are recognized to the extent future recovery is probable. At each reporting end, deferred tax assets are evaluated and if required, reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Financial Assets and Liabilities

Financial assets are initially measured at fair value. On initial recognition, the Company classifies its financial assets at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it meets both of the following conditions: a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Subsequent to initial recognition, all non-derivative financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss. Derivative financial liabilities are measured at fair value through profit or loss.

Impairment of Financial Assets

For trade and other receivables, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected credit loss provision for all trade and other receivables. Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due under the contract and the cash flows that the Company expects to receive. The expected cash flows reflect all available information, including the Company's historical experience, the past due status, the existence of third-party insurance and forward-looking macroeconomic factors.

Comprehensive Income

Comprehensive income measures net earnings for the period plus other comprehensive income. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the year. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income.

Share-based Payments

The Company has a share-based payment plan, which is described in note 10. The Company uses the fair value method estimated at grant date to account for stock options granted to employees, directors and consultants, determined utilizing the Black-Scholes option employee grants as well as for non-employees if the fair value of the services is not determinable. Options issued to employees, directors and consultants are recognized as an expense on a straight line basis over the vesting period (graded vesting), and employee grants as well as for non-employees if the fair value of the services are not determinable. Options issued to the offset is credited to contributed surplus. The historical forfeiture rate is also factored in to the calculations. Any consideration paid upon exercise of stock options would be credited to share capital and the related contributed surplus transferred to share capital.

Grants of RSUs are recorded at fair value at the time of grant and recognized as an expense over their vesting period. The quoted market price of the underlying shares on the grant date is considered to be equivalent to fair value for the RSUs. The charge to equity for RSUs is not updated to fair value at each subsequent reporting period. Upon settlement, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings (deficit).

Earnings Per Share

The Company presents basic and diluted earnings per share data. Basic earnings per share data is calculated by dividing the net income attributable to shareholders of the Company by the weighted-average number of common shares outstanding during each period presented. The diluted earnings per share is determined by adjusting the net income attributable to common shareholders and the weighted-average number of common shares outstanding for the effects of all dilutive potential common shares. The diluted earnings per share calculation considers the impact of stock options, warrants, and other potentially dilutive instruments, which are anti-dilutive when the Company is in a loss position.

Recent Accounting Pronouncements

IFRS 16 Leases

The Company has adopted IFRS 16 with an initial adoption date of January 1, 2019. The Company used the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 17 and related interpretations.

IFRS 16 specifies how leases will be recognized, measured, presented and disclosed and it provides a single lessee model, requiring lessees to recognize right-of-use assets and lease liabilities for all major leases. The impact of the transition to IFRS 16 is shown in Note 13. The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of use asset or the lease term using the straight-line method. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company used its borrowing rate as the discount rate.

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

Accounting standards and amendments issued but not yet applied

Amendments to IFRS 3 – Business Combinations

The amendments to IFRS 3 are applicable for acquisitions occurring on or after January 1, 2020 and are adopted prospectively. These amendments to the implementation guidance of IFRS 3 clarify the definition of a business to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments to IFRS 3 – Business Combination may affect whether future acquisitions are accounted for as business combinations or asset acquisitions, along with the resulting allocation of the purchase price between the net identifiable assets acquired and goodwill.

3. Acquisitions

a) Planer Limited

On August 13, 2019, the Company's wholly-owned subsidiary Hamilton Thorne Holdings UK Limited directly acquired 100% of the capital stock of Sunbury Holdings Limited ("Sunbury") and its wholly-owned operating subsidiary Planer Limited. The transaction is accounted for as a business combination. The acquired company includes the trade name, customer lists, supplier relationships, and all tangible operating assets. Planer is a leading manufacturer of incubators, control rate freezers, lab monitoring systems for the ART and cell biology markets worldwide and a provider of related services in the UK. The purpose of this acquisition was to expand Hamilton Thorne's product offerings and to provide the Company with profitable operations in the well-established UK ART market.

(Expressed in U.S. Dollars)

The consideration paid for the Planer business was GBP 6.8 million (approximately $8.2 million) comprised of GBP 6 million (approximately US$7.2 million) in cash consideration, 1,414,283 common shares (the "Seller Shares") of Hamilton Thorne at a per share price of Cdn $1.137 with an aggregate value of approximately GBP 0.8 million (approximately US$0.951 million). An aggregate of 1,042,550 of the total shares was placed in a 2-year escrow pending final calculation of certain closing adjustments and to satisfy any possible indemnity claims. Transaction costs for this acquisition were $712,317 for the year ended December 31, 2019 and were included in general and administrative expenses.

For the year ending December 31, 2019, the Company finalized the purchase price and allocated the fair value of the consideration to net tangible and intangible assets, and the corresponding effect on goodwill.

The fair value of the consideration paid was:

Cash	$	7,235,598
Equity - common shares issued, at fair value		951,041
Total fair value of consideration paid	$	8,186,639

The final allocation of the fair value consideration paid is as follows:

Net tangible assets	$	2,197,189
Intangible asset- Customer list		1,857,000
Intangible asset- Tradename		1,459,000
Goodwill		2,673,450
Total	$	8,186,639

Goodwill is primarily related to future earnings, cash flow and the assembled workforce.

The final allocation of the value of the tangible assets and liabilities acquired is as follows:

Cash	$	967,949
Accounts receivable, trade		939,947
Inventories		1,755,858
Property and equipment		195,607
Right of use assets		789,112
Total tangible assets	$	4,648,473
Accounts payable		(896,723)
Accrued liabilities		(215,999)
Lease liabilities		(789,112)
Deferred tax liability		(549,450)
Total - net tangible assets	$	2,197,189

Revenue and income from operations, relating to Planer for the period from August 14, 2019 to December 31, 2019 was $2,622,000 and $122,000 respectively, not including acquisition costs expensed to HTL as incurred.

b) Zandair Air Purification Product Line

On July 19, 2018, the Company's wholly-owned subsidiary Hamilton Thorne, Inc. acquired the operating assets of US-based Zander Scientific, Inc. for an agreed upon consideration of $641,000. The transaction is accounted for as a business combination. The acquired assets are comprised of the brand, customer list, and other product rights, and most of the tangible operating assets. ZANDAIR is a leading brand of air purification systems and filters to the ART market. The ZANDAIR product line includes a free-standing air purification system and the flagship ZANDAIR in-duct system for large lab installations. The purpose of this acquisition was to add a profitable portfolio of premium products that diversifies and increases the Company's product offerings and provide additional recurring revenue from consumables sales of UV lights and filters.

The fair value consideration paid to Zander was $641,000 in cash, of which $100,000 was placed in escrow pending final calculation of certain closing adjustments and to satisfy any possible indemnity claims. Transaction costs in 2018 for this acquisition were $87,300 and were included in general and administrative expenses.

For the year ending December 31, 2018, the Company finalized the purchase price and allocated the fair value of the consideration to net tangible and intangible assets, and the corresponding effect on goodwill.

(Expressed in U.S. Dollars)

The fair value of the consideration paid was:

Cash	$	641,000

The final allocation of the fair value consideration paid is as follows:

Net tangible assets	$	65,300
Intangible asset- Customer list		216,000
Intangible asset- Tradename		49,000
Goodwill		310,700
Total	$	641,000

Goodwill is primarily related to future earnings.

The final allocation of the value of the tangible assets and liabilities acquired is as follows:

Cash	$	41,100
Accounts receivable, trade		33,100
Inventories		29,500
Property and equipment (none)		-
Total tangible assets	$	103,700
Accounts payable		(38,400)
Total - net tangible assets	$	65,300

4. Inventories

Inventories consist of the following:

		December 31, 2019		December 31, 2018
Raw materials and purchased inventory	**$**	**6,973,039**	$	3,452,743
Allowance for obsolete or slow-moving items		**(185,029)**		(148,757)
Total	**$**	**6,788,010**	$	3,303,986

Allowances are established for inventory that is determined to be excess or obsolete. During the year, the Company increased its allowance by $36,272 before write-offs ($20,274 in 2018). The Company identified specific inventory and wrote down excess and obsolete inventory of $12,700 in 2019 and $47,900 in 2018. Included in cost of sales are inventory costs of $14,120,000 in 2019 and $10,981,000 in 2018.

5. Property and Equipment

Property and equipment and activity consisted of the following at December 31, 2019:

		Machinery and equipment		Furniture and fixtures		Leasehold improvements		Total
Cost								
Balance January 1, 2019	$	2,047,354	$	190,416	$	177,582	$	2,415,352
Foreign exchange		10,335		4,980		-		15,315
Additions / (Disposals)		209,839		3,113		-		212,952
Acquisitions (note 3)		146,340		49,267		-		195,607
Balance December 31, 2019	$	2,413,868	$	247,776	$	177,582	$	2,839,226

(Expressed in U.S. Dollars)

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Total
Accumulated depreciation				
Balance January 1, 2019	$ 1,531,732	$ 139,379	$ 96,008	$ 1,767,119
Foreign exchange	(792)	187	-	(605)
Depreciation	167,111	24,192	7,129	198,432
Disposals	(4,612)	-	-	(4,612)
Balance December 31, 2019	$ 1,693,439	$ 163,758	$ 103,137	$ 1,960,334
Net book value December 31, 2019	**$ 720,429**	**$ 84,018**	**$ 74,445**	**$ 878,892**

In 2019, the Company recorded gains on disposal of fixed assets of $21,769.

Property and equipment and activity consisted of the following at December 31, 2018:

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance January 1, 2018	$ 1,893,028	$ 194,534	$ 181,060	$ 2,268,622
Foreign exchange	(21,935)	(4,706)	-	(26,641)
Additions / (Disposals)	176,261	588	(3,478)	173,371
Balance December 31, 2018	$ 2,047,354	$ 190,416	$ 177,582	$ 2,415,352
Accumulated depreciation				
Balance January 1, 2018	$ 1,428,588	$ 125,908	$ 54,449	$ 1,608,945
Foreign exchange	(42,510)	6,032	-	(36,478)
Depreciation	145,654	7,439	51,226	204,319
Disposals	-	-	(9,667)	(9,667)
Balance December 31, 2018	$ 1,531,732	$ 139,379	$ 96,008	$ 1,767,119
Net book value December 31, 2018	$ 515,622	$ 51,037	$ 81,574	$ 648,233

In 2018, the Company recorded losses on disposal of fixed assets of $4,184.

6. Intangible Assets and Goodwill

Intangible assets consist of development costs and acquired product rights as at December 31, 2019 as follows:

	Development cost	Acquired customer list	Acquired Trade name / secrets	Total
Cost				
Balance January 1, 2019	$ 2,791,956	$ 11,303,415	$ 1,595,386	$ 15,690,757
Acquisitions (note 3)	-	1,857,000	1,459,000	3,316,000
Additions	1,164,885	-	-	1,164,885
Adjustment to foreign exchange (OCI)	-	256,282	149,359	405,641
Balance December 31, 2019	$ 3,956,841	$ 13,416,697	$ 3,203,745	$ 20,577,283

(Expressed in U.S. Dollars)

		Development cost		*Acquired customer list*		*Trade name / Trade secrets*		*Total*
Accumulated amortization								
Balance January 1, 2019	$	756,026	$	1,445,760	$	334,361	$	2,536,147
Additions		462,374		864,429		249,156		1,575,959
Balance December 31, 2019	$	1,218,400	$	2,310,189	$	583,517	$	4,112,106
Net book value December 31, 2019	**$**	**2,738,441**	**$**	**11,106,508**	**$**	**2,620,228**	**$**	**16,465,177**

Intangible assets consist of development costs and acquired product rights as follows at December 31, 2018:

		Development cost		*Acquired customer list*		*Acquired Trade name / secrets*		*Total*
Cost								
Balance January 1, 2018	$	1,881,471	$	11,482,337	$	1,559,964	$	14,923,772
Acquisitions (note 3)		-		216,000		49,000		265,000
Additions		910,485		-		-		910,485
Adjustment to foreign exchange (OCI)		-		(394,922)		(13,578)		(408,500)
Balance December 31, 2018	$	2,791,956	$	11,303,415	$	1,595,386	$	15,690,757
Accumulated amortization								
Balance January 1, 2018	$	479,563	$	643,529	$	180,750	$	1,303,842
Additions		276,463		802,231		153,611		1,232,305
Balance December 31, 2018	$	756,026	$	1,445,760	$	334,361	$	2,536,147
Net book value December 31, 2018	**$**	**2,035,930**	**$**	**9,857,655**	**$**	**1,261,025**	**$**	**13,154,610**

Goodwill

Activity consisted of the following for the periods ended December 31, 2019 and December 31, 2018:

Balance at December 31, 2017	$	7,813,300
Zandair acquisition		310,700
Adjustment due to foreign exchange		(259,000)
Total at December 31, 2018		7,865,000
Planer acquisition		**2,673,450**
Adjustment due to foreign exchange		**257,950**
Total at December 31, 2019	**$**	**10,796,400**

The Company performed goodwill impairment testing on each of its acquired cash generation units (CGU's). The recoverable amount of each CGU was determined based on a value in use calculation which uses cash flow projections based on financial budgets covering a five-year period and an after-tax discount rate. The cash flows beyond the five-year period were extrapolated using selected per annum growth rate. The cash flow projections used in estimating the recoverable amounts are generally consistent with results achieved historically, adjusted for anticipated growth. The Company believes that any reasonably possible change in key assumptions on which the recoverable amounts were based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount for any of the CGU's.

In 2019, the ELI CGU's significant assumptions used an after-tax discount rate of 18.8% and a growth rate beyond the 5 year period of 1.3%. The Gynemed CGU's significant assumptions used an after-tax discount rate of 15.0% and a growth rate beyond the 5 year period of 3%. The Zandair CGU's significant assumptions used an after-tax discount rate of 33.6% and a growth rate beyond the 5 year period of 2%. The Planer CGU's significant assumptions used an after-tax discount rate of 16.4% and a growth rate beyond the 5 year period of 2%.

In 2018, the ELI CGU's significant assumptions used an after-tax discount rate of 18.8% and a growth rate beyond the 5 year period of 2%. The Gynemed CGU's significant assumptions used an after-tax discount rate of 16.2% and a growth rate beyond the 5 year period of 3%. The Zandair CGU's significant assumptions used an after-tax discount rate of 33.6% and a growth rate beyond the 5 year period of 2%.

(Expressed in U.S. Dollars)

7. Notes Payable and Long-term Debt

Notes payable and long-term debt obligations consist of the following:

	December 31, 2019	December 31, 2018
Notes payable under bank revolving line of credit	**$ -**	$ 800,000
Notes payable under 2016 bank term note	**2,330,632**	3,354,432
Notes payable under 2017 bank term note	**1,822,493**	2,720,914
Notes payable under 2019 bank term note	**2,800,000**	-
Convertible debentures payable	**2,987,913**	4,142,610
Notes payable, shareholder and other	**25,000**	25,000
Adjustment due to foreign exchange	**(52,190)**	239,012
Total	**9,913,848**	11,281,968
Less current portion, Notes payable under bank term notes	**2,517,786**	1,821,465
Less current portion, Notes payable	**25,000**	25,000
Less current portion, Convertible debentures payable	**2,238,479**	-
Less current portion, Fair value of derivative liability	**749,434**	1,699,233
Total long-term debt	**$ 4,383,149**	$ 7,736,270

Notes payable under bank line of credit

In September 2016 the Company negotiated and closed a new $8 million secured credit facility with a Massachusetts regional bank to replace the existing line of credit and facilitate the acquisition of Embryotech. The new credit facility includes a line of credit of up to $2.5 million (the "Revolver"), of which $1.5 million was drawn at closing, and a term loan of $5.5 million (the "2016 Term Loan"). The credit facility was obtained jointly by Hamilton Thorne, Inc. ("HTI") and Embryotech Laboratories Inc. ("ELI"), both wholly owned subsidiaries of HTL. The facility replaced the prior $3.5 million revolving line of credit and resulted in net new borrowings of approximately $3.5 million. In April 2017, a new term loan of $4 million was added to the facility and in August 2019 a $3 million term loan was added. The facility is currently extended through July 2021, and was expanded in September 2019 from $2.5 million to $4.5 million.

The $4.5 million revolving line of credit bears interest at the prime rate (4.75% as of December 31, 2019), matures in July 2021, and is renewable annually upon bank approval. Borrowings are subject to a standard borrowing base eligibility for receivables and inventories and are not subject to any periodic full repayment provisions. The revolving line of credit balance was $nil as of December 31, 2019 and $800,000 as of December 31, 2018.

In September 2019 the Company renewed its $3 million line of credit with its commercial bank to support future acquisitions. The line of credit advances up to $3 million with interest at prime rate, permits advances up to 55% of target acquisition purchase price, and automatically converts to five year, fixed-rate term loans when balance exceeds $1 million. The new line of credit utilization was $nil as of December 31, 2019 and 2018.

The 2016 Term Loan for Embryotech Laboratories Inc. bears interest at a rate of 4.25% per annum, matures in September 2021, and includes an escalating schedule of repayments, including interest, as follows:

Less than one year	$	1,175,108
One year		1,283,259
Two years		-
Greater than two years		-
Total	$	2,458,367

The 2017 Term Note originated in April 2017 when the Company expanded its secured credit facility to partially finance the acquisition of Gynemed with a new term note of $4.0 million (the "2017 Term Note"). The term note was obtained by HTL Holding GmbH, a wholly owned subsidiary of HTL, bears interest at a rate of 4.49% per annum, matures in April 2022, and includes a standard schedule of repayments, including interest, as follows:

Less than one year	$	896,104
One year		896,104
Two years		298,701
Greater than two years		-
Total	$	2,090,909

(Expressed in U.S. Dollars)

The 2019 Term Note originated in August 2019 when the Company utilized its secured credit facility to partially finance the acquisition of Planer with a new term note of $3.0 million (the “2019 Term Note”). The term note was obtained by Hamilton Thorne, Inc, a wholly owned subsidiary of HTL, bears interest at a rate of 4.44% per annum, matures in August 2024, and includes a standard schedule of repayments, including interest, as follows:

Less than one year	$	713,985
One year		686,642
Two years		659,632
Greater than two years		1,039,393
Total	$	3,099,651

The combined credit facility is secured by all of the assets of all subsidiaries, contains standard financial covenants, and includes other usual and customary terms and conditions. The Company was in compliance with all covenants as at December 31, 2019 and at December 31, 2018.

Convertible debentures payable

In April 2017 the Company issued €3,208,500 of convertible debentures as a portion of the purchase price of the acquisition of Gynemed (US$3,496,526). The Debentures will accrue interest at a rate of 4.25% per annum, payable in full maturity in three years in April 2020, and were originally convertible, at the option of the holder, into 7,561,365 Hamilton Thorne common shares at the contractual conversion price equal to the Euro equivalent of Cdn $0.63 per share based on a staged, 3-year optional conversion schedule. The conversion feature has been recorded as a derivative liability as the exercise price is issued in Euro. The fair value of the derivative liability upon issuance was $2,340,468 as valued using an option pricing model.

In June 2019 the holders of the Debentures exercised their two-year vested conversion rights, exchanging approximately $2.07 million of the outstanding liability amount for 3,402,838 common shares. The remaining Debentures will be eligible for conversion on the original three-year maturity date of April 28, 2020.

		December 31, 2019		*December 31, 2018*
Face value of convertible debenture at issuance	**$**	**-**	$	3,496,526
Less: Fair value of derivative liability at issuance		-		(2,340,468)
Book value of convertible debenture		**2,443,377**		1,156,058
Adjustment due to foreign exchange		**(130,721)**		116,836
Accretion expense during the year		**772,596**		1,170,483
Derecognize due to conversion		**(846,773)**		-
Convertible debentures payable	**$**	**2,238,479**	$	2,443,377
Fair value of derivative liability - beginning of year	**$**	**1,699,233**	$	2,271,854
Change - fair value of derivative		**273,578**		(572,621)
Derecognize due to conversion (note 8)		**(1,223,377)**		-
Fair value of derivative liability	**$**	**749,434**	$	1,699,233

The fair value of the derivative liability upon issuance was valued using an option pricing model with the following assumptions: risk free rate of return of 0.7%, expected share volatility of 112.0%, dividend yield of 0%, expected life of 3 years, market share price of Cdn $0.77, the probability of future conversions, and expected issuance price. The residual value was allocated to the convertible debentures’ liability. Total interest expense accrued and accreted for the convertible debentures residual value was $772,596 in 2019 and $1,170,483 in prior years.

The derivative liability was re-valued at December 31, 2019, using an option pricing model with the following assumptions: risk free rate of return of 1.7%, expected share volatility of 41%, dividend yield of 0%, expected life of 4 months, market share price of Cdn $1.04, the probability of future conversions, and expected issuance price. Change in the fair value of the derivative liability for the year was a loss of $273,578 in 2019 and a gain of $572,621 in 2018.

Notes payable, shareholder and other

In October 2006 a shareholder advanced the Company $50,000 in return for a note payable upon demand with interest at the prime rate (4.75%) plus 1% at December 31, 2019. In November 2006, $25,000 was repaid, leaving $25,000 outstanding as at December 31, 2019 and 2018.

8. Share Capital and Earnings Per Share

There are an unlimited number of common shares authorized. The issued and outstanding common shares are 127,314,289 as at December 31, 2019 and 119,891,575 as at December 31, 2018.

In September 2018 the Company completed a private placement of common stock to be used for funding future acquisitions, issuing 9,090,910 common shares at a price of Cdn $1.10 for proceeds of $7,684,635, less cash share issuance costs of $573,600. The transaction consisted of 9,090,910 common shares and 545,455 broker warrants to acquire one common share at an exercise price of Cdn $1.10 for a period of one year following the closing. The value of each warrant was, using the Black-Scholes pricing model, determined to be Cdn $0.15 and amounted to $81,859, determined using a weighted average volatility of 28%, risk free interest rate of 2.02%, dividend yield and forfeiture rate of nil, and an expected life of one year.

During the year 2018 the Company issued 999,376 shares due to exercise of options under the 2009 Stock Option Plan for total proceeds of $139,345 (see note 10). The Company also issued 1,079,684 shares due to exercise of warrants for total proceeds of $457,310 (see note 9).

In June 2019 the Company issued 3,402,838 common shares to the holders of the April 2017 Debentures who exercised their vested conversion rights, exchanging approximately $2.07 million of the outstanding accreted amount of convertible debentures plus fair value of the derivative liability as at the date of conversion for 3,402,838 common shares in accordance with the terms of the Debentures. The approximately $2.2 million remaining accreted amount of convertible debentures plus fair value of derivative liability as at the date of conversion will be eligible for conversion at the option of the holders, into 4,145,527 common shares on the original three-year maturity date of April 28, 2020.

During the year 2019 the Company issued 2,584,993 shares due to exercise of options under the 2009 Stock Option Plan for total proceeds of $678,840 (see note 10). The Company also issued 20,600 shares due to exercise of warrants for total proceeds of $16,647 (see note 9).

In August 2019 the Company issued 1,414,283 common shares as a portion of the purchase price of the acquisition of Planer Limited. The shares were issued at a price of Cdn $1.10 per share. The agreed upon share component value was $1,205,836 less the fair value reduction of $254,795 for a total of $951,041. The share consideration was placed in escrow pending final calculation of certain closing adjustments and to satisfy any possible indemnity claims. For purchase price consideration, the relative fair value of the issuance was determined to be $951,041, utilizing the Black-Scholes pricing model, using a weighted average volatility of 44%, risk-free interest rate of 1.44%, dividend yield and forfeiture rate of nil, and an expected life of two years.

The following table shows the components used in the calculation of basic and diluted earnings per common share for each period:

		Year ended December 31,	
		2019	*2018*
Net income for the year	**$**	**793,275**	$ 2,960,355
Weighted average number of shares outstanding		**122,916,339**	112,628,203
Potential dilutive securities - assumed exercise of options		**5,237,297**	5,889,740
Potential dilutive securities - warrants		**-**	-
Potential dilutive securities - convertible debt		**4,145,527**	7,563,045
Weighted average number of shares outstanding - diluted		**132,299,163**	126,080,988

9. Warrants

Activity consisted of the following for periods ending December 31, 2019, and December 31, 2018:

		$ Value	***Number***	***Weighted Average Exercise Price in Cdn $***	***Weighted Average Life Remaining in Years***
Outstanding at December 31, 2017 (1)	$	634,184	1,079,684	0.5400	0.83
Issued (3)		81,859	545,455	1.1000	0.71
Exercised (2)		(634,184)	(1,079,684)	0.5400	-
Outstanding at December 31, 2018	$	81,859	545,455	1.1000	0.71
Exercised (4)		**(3,092)**	**(20,600)**	**1.1000**	**1.10**
Expired (4)		**(78,767)**	**(524,855)**	**1.1000**	**1.10**
Outstanding at December 31, 2019	**$**	**-**	**-**	**-**	**-**

(1) In April 2017 a total of 1,079,684 broker warrants were issued in the common stock unit private placement at a price of Cdn $0.54.
(2) In April 2018 the warrants were fully exercised.
(3) In September 2018 a total of 545,455 broker warrants were issued in the common stock unit private placement at a price of Cdn $1.10. See Note 8.
(4) In September 2019 a total of 20,600 warrants were exercised and the remaining 524,855 expired.

10. Equity Compensation Plans

Stock options

In June 2019 the Company's shareholders approved the adoption of the Hamilton Thorne Ltd. 2019 Long-Term Equity Incentive Plan (the "2019 Equity Incentive Plan") to replace the Company's 2009 Stock Option Plan. Pursuant to the terms of the 2019 Equity Incentive Plan, the board of directors of the Company may from time to time, in its discretion, and in accordance with TSX Venture Exchange requirements, issue equity awards in the form of either stock options or restricted share units to any director, officer, employee, management company employee, or consultant of the Company or any affiliate determined by the board of directors as eligible for participation in the Plan. Awards issued pursuant to the 2019 Equity Incentive Plan may be exercisable or redeemable into a maximum of 6,000,000 common shares. All stock options previously issued under the Company's 2009 Stock Option Plan will continue in full force and effect, but no further options may be issued under the 2009 Stock Option Plan. At December 31, 2019 there were 4,320,000 common shares available for future grants, and at December 31, 2018 there were 2,882,005 options under the previous plan available for future grants.

The number of common shares reserved for issuance to any individual director or officer under the 2019 Equity Incentive Plan, may not exceed 5% of the issued and outstanding common shares. The vesting requirements under the new Plan are determined by the Compensation committee of the Board. In general, the existing options granted to directors, officers and other employees vest over four years.

Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of a participant was by reason of death or disability, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. Options granted may be "incentive stock options" for US participants. The exercise price per share shall not be less than the closing sale price traded on an exchange on the last trading day preceding the date of the grant.

On August 4, 2009 the Company adopted the 2009 Stock Option Plan, including the roll-over and inclusion of the 2007 HTI Plan. Under that Plan, the board of directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, employees, consultants and consultant companies options to purchase common shares, exercisable for a period of up to ten years from the date of grant. The Plan was approved by the shareholders of the Company in August 2009 and 3,431,830 shares were reserved of issuance under the Plan. The original plan was increased several times by shareholders votes, to 18,080,000 as of March 31, 2019. Under the new plan all stock options previously issued under the Company's 2009 Stock Option Plan will continue in full force and effect, but no further options may be issued under this Plan.

Stock option activity consisted of the following:

	Number of Options	*Weighted Average Exercise Price in Cdn $*
Outstanding at December 31, 2017	12,104,264	0.3615
Granted	1,380,000	0.9967
Exercised	(999,376)	0.1870
Expired	-	-
Forfeited	(92,188)	0.7188
Outstanding at December 31, 2018	12,392,700	0.3997
Granted	**998,000**	**0.9600**
Exercised	**(2,584,993)**	**0.3478**
Expired	**-**	**-**
Forfeited	**(169,375)**	**0.3500**
Outstanding at December 31, 2019	**10,636,332**	**0.4845**
Exercisable at December 31, 2018	8,809,707	0.3159
Exercisable at December 31, 2019	**7,787,894**	**0.3534**

In April and May 2018, the Board granted options to employees, totaling 435,000 options at exercise prices from Cdn $0.79 to Cdn $0.83, respectively, all vesting over 48 months. Using the Black-Scholes model, the fair value weighted average of the grant was approximately $300,000 or $0.65 each. The fair value of options was determined using a weighted average volatility of 239%, risk-free interest rates of 2.0%, dividend yield and forfeiture dividend yield and forfeiture rate of nil, and an expected life of 6.25 years. Volatility was estimated by using the Company's stick price for the estimated life. The expected life represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the US Treasury notes rates with a term similar to the expected life of the options.

In November 2018, the Board granted options to directors, management, and employees, totaling 945,000 options at an exercise price of Cdn $1.09, all vesting over 48 months. Using the Black-Scholes model, the fair value weighted average of the grant was approximately $778,000 or $0.82 each. The fair value of options was determined using a weighted average volatility of 224%, risk-free interest rates of 2.3%, dividend yield and forfeiture dividend yield and forfeiture rate of nil, and an expected life of 6.25 years. Volatility was estimated by using the Company's stock price for the estimated life. The expected life represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the US Treasury note rates with a term similar to the expected life of the options.

In November 2019, the Board granted a total of 998,000 options to employees at an exercise price of Cdn $0.96, all vesting over 48 months. Using the Black-Scholes model, the fair value weighted average of the grant was approximately $620,000 or $0.62 each. The fair value of options was determined using a weighted average volatility of 115%, risk-free interest rates of 1.6%, dividend yield and forfeiture dividend yield and forfeiture rate of nil, and an expected life of 6.25 years. Volatility was estimated by using the Company's stock price for the estimated life. The expected life represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the US Treasury note rates with a term similar to the expected life of the options.

In 2019, a total of 169,375 options were forfeited by six employees leaving the Company. In 2018, a total of 92,188 options were forfeited by two employees leaving the Company.

In 2019, a total of 2,584,993 options were exercised by ten employees and four directors for cash of $678,840. In 2018, a total of 999,376 options were exercised by eleven employees and one director for cash of $139,345.

The Company recorded share-based compensation expense of $950,128 and $1,044,698 during the years ended December 31, 2019 and 2018, respectively, which is included proportionately in departmental expenses.

At December, 2019, the following stock options were outstanding under the Plan:

Expiration date	Exercise Price in Cdn $	Number of Options Outstanding	Number of Options Exercisable	Weighted Average Life Remaining In Years
May, 2020	0.2400	10,000	10,000	0.4
August, 2020	0.2050	133,187	133,187	0.7
December, 2020	0.2500	244,152	244,152	1.0
September, 2021	0.1800	583,235	583,235	1.7
November, 2022	0.1000	1,402,409	1,402,409	2.9
March, 2024	0.0500	693,750	693,750	4.2
May, 2025	0.3600	1,557,531	1,557,531	5.4
November, 2025	0.2200	25,000	25,000	5.9
February, 2026	0.1800	376,724	376,724	6.2
September, 2026	0.1900	607,812	418,437	6.7
April, 2027	0.6300	2,501,094	1,724,532	7.3
September, 2027	0.8032	185,000	115,625	7.7
April and May, 2028	0.7900	420,000	175,313	8.4
November, 2028	1.0900	898,438	283,750	8.9
November, 2029	0.9600	998,000	44,250	9.9
Total		10,636,332	7,787,894	6.1

Restricted Stock Units

Restricted stock unit activity consisted of the following:

	Number of Restricted Stock Units	***Weighted Average Fair Value at Issuance in Cdn $***
Outstanding at December 31, 2018	-	-
Granted	**682,000**	**0.9600**
Vested	**-**	**-**
Forfeited	**-**	**-**
Outstanding at December 31, 2019	**682,000**	**0.9600**

In November 2019, the Board granted initial restricted stock units (RSUs) under the expanded 2019 Equity Incentive Plan to directors and management, totaling 682,000 units at a fair value on the date of the grant of Cdn $0.96, vesting in three equal installments over 2.4 years, with the first vesting date of March 31, 2020, and then annually at 2021 and 2022. At each vesting date, the units are settled to common shares and issued to the holders. The fair value of the RSUs at issuance was $494,450.

At December, 2019, the following restricted stock units were outstanding under the Plan:

Expiration date	Fair value at Issuance Price in Cdn $	Number of RSUs Outstanding	Number of units Exercisable	Weighted Average Life Remaining In Years
March, 2022	0.9600	682,000	-	2.3
Total		682,000	-	2.3

11. Segmented Information and Major Customers

The Company's operations are comprised of a single reporting segment engaged in sales to the ART, research and cell biology markets. As such, the amounts reported and disclosed in the consolidated financial statements for sales, net income, depreciation and total assets also represent those of that segment. Sales in the Americas comprised 33% of total sales, and 67% of sales are outside the Americas.

Enterprise sales consist of:

	Year ended December 31, 2019	2018
Equipment sales	**$ 16,308,083**	$ 11,843,778
Services and consumables	**19,050,326**	17,370,036
Total	**$ 35,358,409**	$ 29,213,814

In 2019 and 2018, the Company had no customers exceed 10% of revenues.

12. Income Taxes

The reconciliation of the combined US federal and state statutory income tax rate of 24.82% (2018 – 24.82%) to the effective tax rate is as follows:

	Year ended December 31, 2019 Tax amount	Effective Rate	*Year ended December 31, 2018* Tax amount	Effective Rate
Net Income before recovery of income taxes	**$ 1,817,975**		$ 3,008,655	
Expected income tax expense	**451,260**	**24.8%**	746,810	24.8%
Permanent differences	**566,980**	**31.2%**	273,440	9.1%
Other taxes not reduced by tax losses	**223,310**	**12.3%**	28,330	0.9%
Difference in foreign tax rate	**(64,100)**	**-3.5%**	14,570	0.5%
Changes in enacted tax rates	**(143,500)**	**-7.9%**	-	0.0%
Difference in tax rate for NOL	**(102,180)**	**-5.6%**	(40,020)	-1.3%
True-up from prior year provision	**105,160**	**5.8%**	340,100	11.3%
Share issuance cost booked through equity	**8,830**	**0.5%**	(152,000)	-5.1%
Other differences	**(21,060)**	**-1.2%**	(46,930)	-1.6%
Recognition of net operating losses	**-**	**0.0%**	(1,116,000)	-37.1%
Income tax expense	**$ 1,024,700**	**56.4%**	$ 48,300	1.6%

(Expressed in U.S. Dollars)

The Company's income tax (recovery) expense is allocated as follows:

		2019		*2018*
Current tax expense	**$**	**194,740**	$	266,030
Deferred tax (recovery)		**829,960**		(217,730)
Income tax expense	**$**	**1,024,700**	$	48,300

Deferred Tax

The Company recognized certain deferred tax temporary differences and loss carry-forward assets in fiscal 2017 and 2018. Management has made an assessment that the benefits of the temporary differences and net operating losses are more likely than not to be realized in future periods based on current and projected results from operations.

The following table summarizes the components of deferred tax:

		2019		*2018*
Deferred Tax Assets				
Federal non-operating losses	**$**	**4,060,500**	$	4,743,480
Operating losses US state		**5,130**		10,920
Bad debt reserve		**16,400**		20,380
Inventory reserve		**34,230**		29,920
Share-based payments expense		**163,080**		962,400
Other permanent differences		**131,940**		105,900
Tax credits		**137,150**		124,850
Deferred Tax Liabilities				
Development cost		**(629,850)**		(489,890)
Intangibles		**(3,090)**		(15,480)
Property, Plant and Equipment		**(104,190)**		(88,940)
Goodwill		**(108,310)**		(68,770)
Loan		**(170)**		(170)
Net Deferred Tax Asset	**$**	**3,702,820**	$	5,334,600

		2019		*2018*
Deferred Tax Liabilities				
Intangibles	**$**	**(603,980)**	$	164,000
Goodwill		**(52,330)**		185,300
Net deferred Tax Liability	**$**	**(656,310)**	$	349,300

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax assets:		***2019***		*2018*
Balance at the beginning of the year	**$**	**5,334,600**	$	4,305,000
Recognized in profit/loss		**(1,075,080)**		472,900
Recognized in equity		**(556,700)**		556,700
Total	**$**	**3,702,820**	$	5,334,600

(Expressed in U.S. Dollars)

Movement in net deferred tax liabilities:		***2019***		*2018*
Balance at the beginning of the year	**$**	**(349,300)**	$	(110,000)
Recognized in profit/loss		**245,120**		(239,300)
Recognized in Goodwill		**(552,130)**		-
Total	**$**	**(656,310)**	$	(349,300)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following temporary differences:

		2019		*2018*
Non-Capital Losses carried forward - Canadian	**$**	**2,571,510**	$	1,421,740
Share issuance cost - Canadian		**751,560**		973,000
Total	**$**	**3,323,070**	$	2,394,740

Share issue and financing costs will be fully amortized in 2023.

Net Operating Losses Carryforward (20-year) - US Federal

Loss Year	**Expire in**		**Available NOL**
2002	2022	$	18,983
2003	2023		3,128,888
2004	2024		2,843,576
2005	2025		2,643,584
2006	2026		1,428,523
2007	2027		2,263,932
2008	2028		1,264,716
2009	2029		1,319,193
2010	2030		1,510,065
2011	2031		1,586,383
2012	2032		1,327,855
Total		$	19,335,698

The Company’s Canadian non-capital income tax losses expire as follows:

Loss Year	**Expire in**		**Available NOL**
2013	2033	$	35,530
2014	2034		25,310
2015	2035		39,500
2016	2036		77,000
2017	2037		240,340
2018	2038		1,004,070
2019	2039		1,149,760
Balance at the end of the year		$	2,571,510

(Expressed in U.S. Dollars)

U.S. Income Tax Status

U.S. federal tax legislation was enacted in 2004 to address perceived U.S. tax concerns in "corporate inversion" transactions. A "corporate inversion" generally occurs when a non-U.S. corporation acquires "substantially all" of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the acquisition, former equity holders of the U.S. corporation or partnership own a specified level of stock in the non-U.S. corporation. The tax consequences of these rules depend upon the percentage identity of stock ownership that results. Generally, in the "80-percent identity" transactions, i.e. former equity holders of the U.S. corporation owns 80% or more of the equity of the non-U.S. acquiring entity (excluding certain equity interests), the tax benefits of the inversion are limited by treating the non-U.S. acquiring entity as a domestic entity for U.S. tax purposes. In the "60-80 percent identity" transactions, the benefits of the inversion are limited by barring certain corporate-level "toll charges" from being offset by certain tax attributes of the U.S. corporation (e.g. loss carryforwards), and imposing excise taxes on certain stock based compensation held by "insiders" of the U.S. corporation.

13. Lease Commitments

The Company has applied IFRS 16 using the modified retrospective method and has recognized the following balances as of the January 1, 2019 adoption date:

Right of use asset:		***Rental and operating facilities***
Cost		
Recognized on adoption of IFRS 16 as of January 1, 2019	$	2,223,143
Additions		78,215
Acquisitions (note 3)		789,112
Balance December 31, 2019	$	3,090,470
Accumulated depreciation		
Recognized on adoption of IFRS 16 as of January 1, 2019	$	-
Additions		461,269
Balance December 31, 2019	$	461,269
Net book value December 31, 2019	**$**	**2,629,201**

Lease liabilities:		***Rental and operating facilities***
Recognized on adoption of IFRS 16 as of January 1, 2019	$	2,223,143
Additions		78,215
Acquisitions (note 3)		789,112
Interest		116,312
Payments		(528,414)
Total lease liabilities at December 31, 2019	$	2,678,368
Less: current portion		653,479
Balance December 31, 2019	**$**	**2,024,889**

The comparative information has not been restated and continues to be reported under IAS 17, Leases and related interpretations.

In 2018, the Company was committed under operation leases for rental of all operating locations. Future minimum annual rentals were as follows:

Less than one year	$	439,490
One to three years		617,651
Greater than three years		1,412,363
Total	$	2,469,504

(Expressed in U.S. Dollars)

14. Expenses

A schedule of the Company's expenses for cost of goods sold and all operating expenses for the years ended is as follows:

	Year ended December 31, 2019	2018
Employee wages and benefits	**$ 8,077,471**	$ 6,611,761
Share-based payments expense	**950,128**	1,044,698
Rent expense	**228,811**	450,851
Depreciation and amortization	**2,237,792**	1,467,183
Materials cost	**14,904,734**	11,637,010
Travel and trade shows	**1,007,647**	843,189
Acquisition cost	**712,317**	87,318
Other	**4,014,794**	3,476,218
Total	**$ 32,133,694**	$ 25,618,228

15. Capital Management

The Company’s objective when managing capital is to safeguard its ability to continue as a going concern in order to pursue the continued development and commercialization of its technologies and to provide financial flexibility. In the management of capital, the Company includes the components of shareholders’ equity as well as its debt, and totaled approximately $51,472,000 and $42,157,125 as at December 31, 2019 and 2018 respectively.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, raise new debt or enter into new capital leases.

There are no externally imposed capital requirements other than our standard bank covenants applicable to the line of credit and term loan as of December 31, 2019 and December 31, 2018.

16. Financial Instruments

Fair Value

The Company’s carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and derivative liability approximate their fair values due to the immediate or short-term maturity of these instruments.

The carrying values of the convertible debentures payable, bank term notes and long-term debt approximate their fair value as the interest rates are consistent with the current market rates for debt with similar terms.

The following is a summary of the Company's categories of financial instruments outstanding as at December 31, 2019:

Cash and cash equivalents	Fair value through profit and loss
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Bank term notes	Amortized cost
Derivative liability	Fair value through profit and loss
Long-term debt	Amortized cost

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

(Expressed in U.S. Dollars)

The fair value of the derivative liability is a new level 2, based upon inputs that are derived from the market prices. During the years ended December 31, 2019 and December 31, 2018 there were no transfers of amounts between Levels. There are no items classified in Level 3.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's bank line of credit has variable interest rates. Changes in the lending institutions prime lending rates can cause fluctuations in interest payments and cash flows. Interest rate risk on debentures is limited due to the fact that they are fixed rate of interest instruments.

For the year ended December 31, 2019, a change in interest rate relating to the notes payable under the bank line of credit of 1% would have increased interest expense by approximately $nil (approximately $8,000 for 2018).

Foreign Exchange Rate Risk

Foreign exchange risk arises when financial assets or financial liabilities are denominated in a currency that is not the Company's functional currency. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises on recognized financial assets and financial liabilities, principally cash, trade receivables and accounts payable and accrued liabilities. The Company is not exposed to significant foreign exchange risk, as the majority of the Company's purchase and sale transaction are denominated in the Company's functional currency. The Company's various subsidiaries sell goods and transact with suppliers primarily in their own respective functional currency. There are minimal sales or purchases outside these functional currencies. Thus, the Company overall is not exposed to significant foreign exchange risk.

The Company is exposed to foreign exchange risk arising on its net investment in foreign operations. For the years ended December 31, 2019 and 2018, the Company recognized foreign currency exchange losses in other comprehensive income of $301,040 and $792,245 respectively. A change in the company's current foreign exchange rate of 1% would have changed the Other Comprehensive Income gain or loss in 2019 and 2018 by approximately $163,000 and $175,000 respectively.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's principal financial assets that expose it to credit risk are trade and other receivables, the Company mitigates this risk by monitoring the credit worthiness of its customers.

The Company recognizes a provision for expected credit losses ("ECLs") based on its assessment of probability of specific losses, estimates of future individual exposures and provisions based on historical experience.

The following is the breakdown of the aging of trade receivables:

	December 31, 2019	*December 31, 2018*
Trade receivables aging:		
0 to 30 days (Current)	**$ 2,584,992**	$ 2,133,710
31 to 60 days	**511,334**	605,911
61 to 90 days	**122,389**	173,462
Greater than 90 days	**19,242**	177,035
	$ 3,237,957	$ 3,090,118
Expected credit loss provision	**(104,465)**	(105,819)
Net trade receivables	**$ 3,133,492**	$ 2,984,299

Movement in the expected credit loss provision is as follows:

	Expected credit loss provision
Balance December 31, 2017	**$ 126,175**
Expected credit loss	**(18,761)**
Amounts written off during the year	**(1,595)**
Balance December 31, 2018	**105,819**
Additions	**9,779**
Expected credit loss	**4,776**
Amounts written off during the year	**(15,909)**
Balance December 31, 2019	**$ 104,465**

(Expressed in U.S. Dollars)

As at December 31, 2019, there was no concentrated credit risk with any customer or distributor exceeding 10% of accounts receivable. As at December 31, 2018, the Company had one distributor exceeding 10% (at 12.6%) of accounts receivable.

The Company applies the simplified approach to provide for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The expected credit loss provision is based on the Company's historical collections and loss experience and incorporates forward-looking factors, where appropriate. Under the simplified approach, the Company has applied a Moody's industry credit loss rate of 3.0% in 2019 (3.1% in 2018) to each aging category of trade receivables.

Liquidity Risk

Liquidity risk is the risk that the Company would not be able to meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, by continuously monitoring actual and forecasted cash flows. Based on the Company's ability to generate cash flows through its ongoing operations and financing activities, management believes that cash flows are sufficient to cover its known operating and capital requirements, as well as its debt servicing costs.

The maturity dates of the Company's financial liabilities are as follows:

		Carrying amount		***Contractual cash flows***		***Maturing in the next 12 months***		***Maturing in 13 to 60 months***
As at December 31, 2019:								
Accounts payable and accrued liabilities	**$**	**5,347,137**	$	5,347,137	$	5,347,137	$	-
Long-term lease liabilities		**2,678,368**		2,678,368		653,479		2,024,889
Long-term debt - bank line of credit and term loans		**6,900,935**		6,900,935		2,517,786		4,383,149
Convertible debentures payable		**2,238,479**		2,238,479		2,238,479		-
Derivative liability		**749,434**		749,434		749,434		-
Notes payable		**25,000**		25,000		25,000		-
Tax and other liabilites		**1,285,196**		1,285,196		1,285,196		-
Total	**$**	**19,224,549**	$	17,939,353	$	11,531,315	$	6,408,038

		Carrying amount		***Contractual cash flows***		***Maturing in the next 12 months***		***Maturing in 13 to 60 months***
As at December 31, 2018:								
Accounts payable and accrued liabilities	$	2,592,669	$	2,592,669	$	2,592,669	$	-
Long-term debt - bank line of credit and term loans		7,114,358	$	7,114,358		1,821,465		5,292,893
Convertible debentures payable		2,443,377	$	2,443,377		-		2,443,377
Derivative liability		1,699,233	$	1,699,233		1,699,233		-
Notes payable		25,000	$	25,000		25,000		-
Tax and other liabilites		519,786	$	519,786		519,786		-
Total	$	14,394,423	$	13,874,637	$	6,138,367	$	7,736,270

17. Related Party Transactions

In June 2019, the Company issued 1,575,514 common shares to a Managing Director of Gynemed upon exercise of vested conversion rights, in exchange for approximately $760,000 of the outstanding principal amount of Convertible Debentures in accordance with the terms of the debentures. The approximately $925,000 remaining principal amount of Debentures will be eligible for conversion at the option of the holder, into 1,925,630 common shares on the original three-year maturity date of April 28, 2020.

The Company's related parties include key management personnel, comprised of the senior executives and directors. Compensation is as follows for the years ended December 31, 2019 and 2018:

		2019		*2018*
Remuneration	**$**	**1,807,868**	$	1,696,466
Share-based payments		**343,980**		440,955
Total	**$**	**2,151,848**	$	2,137,421

18. Subsequent Events

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the governments in which the Company operates regarding travel, business operations and isolation/quarantine orders. At this time, the extent of the impact that the COVID-19 outbreak may have on the Company is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand and supply chain disruptions which could negatively impact the Company's business and financial condition.

In the first quarter of 2020, the Company increased its cash position by $3.5 million by drawing on its revolving line of credit, in order to maximize cash balances in light of general COVID-19 developments.