



**Avricore Health Inc.**  
**Management's Discussion & Analysis**  
For the year ended  
December 31, 2019

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This Management Discussion and Analysis ("MD&A") of Avricore Health Inc. (formerly VANC Pharmaceuticals Inc.) ("AVRICORE", the "Company", "we", "us" or "our") for the year ended December 31, 2019 is prepared as of April 29, 2020. This MD&A should be read in conjunction with the audited financial statements for the year ended December 31, 2019 and the related notes thereto.

Our financial statements are prepared in accordance International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains "forward-looking statements" and the non-GAAP performance measures that are subject to risk factors set out in a cautionary note contained herein.

All amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information about Avricore Health Inc. (formerly VANC Pharmaceuticals Inc.) can be found on the SEDAR website ([www.sedar.com](http://www.sedar.com)) and on the Company's website ([www.vancpharm.com](http://www.vancpharm.com)).

## **FORWARD LOOKING STATEMENTS**

*This MD&A contains or incorporates forward-looking statements within the meaning of Canadian securities legislation (collectively, "forward-looking statements. These forward-looking statements relate to, among other things, revenue, earnings, changes in cost and expenses, capital expenditures and other objectives, strategic plans and business development goals, and may also include other statements that are predictive in nature or that depend upon or refer to future events or conditions, and can generally be identified by words such as "may", "will", "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These statements are not historical facts but instead represent only Avricore's expectations, estimates and projections regarding future events.*

*Although the Company believes the expectations reflected in such forward-looking statements are reasonable, such statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Undue reliance should not be placed on such statements. Certain material assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. Known and unknown factors could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Important assumptions, influencing factors, risks and uncertainties are referred to in the body of this MD&A, in the press release announcing the Company's financial results for the years ended December 31, 2019 and 2018, and in Avricore's annual financial statements and the notes thereto. These documents are available at [www.sedar.com](http://www.sedar.com).*

*The forward-looking statements contained in this MD&A are made as at the date of this MD&A and, accordingly, are subject to change after such date. Except as required by law, Avricore does not undertake any obligation to update or revise any forward-looking statements made or incorporated in this MD&A, whether as a result of new information, future events or otherwise.*

## **OVERVIEW**

Avricore Health Inc. is a total health innovator focusing on revolutionary point-of-care-technologies, HealthTab + RASTR Network, to conduct real-world evaluations on treated populations. Avricore capitalizes on technological advancements and consumer health trends, offering consumers and health providers the ability to take control of health spending and outcomes. The Company has made significant progress in its transition into the world leader in providing life-saving screening tests for consumers and critically valuable real-world evaluation data for drug makers

## **COVID-19 RESPONSE**

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. This global pandemic poses the risk that the Company or its clients, contractors, suppliers, and other partners may be unable to conduct regular business activities for an indefinite period of time. While it is not possible at this time to estimate the impact that COVID-19 could have on the Company's business, the continued spread of COVID-19 and the measures taken by the federal, provincial and municipal governments to contain its impact could adversely impact the Company's business, financial condition or results of operations.

COVID-19 also presents opportunities for companies in the health care space to assist in the response to the pandemic. Management is leveraging relationships the Company has development in its many years in the health care space to exploring opportunities to assist in the COVID response. The company is currently exploring the possibility of providing PPE to provincial and federal governments and national drug store chains.

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 spread of the virus and government actions. Management continues to monitor the situation.

## **HEALTHTAB + RASTR NETWORK – KEY DEVELOPMENTS**

- Key developments have included:
  - Developing new pharmacy partner locations with Shoppers Drug Mart
  - Developing new pilot programs with national pharmacy chains,
  - Advancing discussions with lab service providers,
  - Negotiating agreements with electronic health record service providers,
  - HealthTab revenues increased 100% year-over-year.
- Continued to negotiate new PoC service integrations to expand the HealthTab testing menu.
- Refined the Rapid Access Safety Test Response (RASTR) Network to monetize de-identified data associated with high-value Real-World Evaluation (RWE) clinical trials.
- Moved forward with negotiations across several target demographics, domestically and internationally, with life-science companies, host-locations and Clinical Research Organizations (CRO).

Hector Bremner was appointed CEO on October 15th, 2019. Hector was formerly a Board Advisor and Executive Vice-President of Branding, Strategic Communications and Public Affairs. In his time with the Company, Mr. Bremner has refocussed strategic efforts completely around HealthTab + RASTR Network. The Company has

entered into discussions and memorandums of understanding with key business partners including Clinart and Ontario Pharmacy Association, Given the pace of discussions, it is anticipated that the Company will realize its corporate objectives of securing definitive agreements and initiating additional revenue streams in Q4 2020.

RASTR, Rapid Access Safety Test Reporting, is a cloud-based network technology that enables the world's first harmonized, real-time response system where consumers receive a finger-stick blood test at their local pharmacy via a web-enabled blood chemistry analyzer called the Piccolo Xpress. Their bio-markers, which include 21 key results related to heart, liver and kidney function, are received via secure login which they can then use to better understand their health performance and share with their healthcare team for evidence-based decision making.

De-identified data collected with consumer consent across the RASTR Network of analyzers can be shared with life-science companies and other research entities. The traditional clinical trial approach can be limited in the scope of time, demographical reach and other inherent exclusionary attributes. RASTR presents a revolutionary model for utilizing the system's unique ability to offer real-time evaluations of treated populations and even real-world evaluation clinical trials. Deloitte surveyed life-science companies in 2017 to determine the level of investment in Real-World Evidence (RWE) studies, they found that despite the great need and investment in the area, a practical solution was not currently available. Today, Avricore Health believes that HealthTab + RASTR Network has finally achieved this significant industry objective.

Currently, HealthTab is available in Shoppers Drug Marts in the Greater Toronto Area and the Company is currently fielding requests for HealthTab systems by pharmacy chains in Canada, which we anticipate will quadruple the number of locations by the end of Q4 2020. Furthermore, the Company announced a partnership agreement with the Ontario Pharmacists Association (OPA) whereby the OPA will market HealthTab to its members, which is the largest such membership in the country, with over 10,000 members and over 4400 community pharmacy locations.

Additionally, the Company is in final negotiations with a large healthcare technology and service provider to integrate the HealthTab + RASTR model into their offering. The Company anticipates announcing the final terms of that project by mid 2020 upon resolution of COVID 19 measures.

Established laboratory service providers are seeking to partner with the Company in offering its point-of-care testing as part of their overall menu. The HealthTab + RASTR approach is being embraced as the most credible manner in which to deploy such testing within a conventional lab approach, as it offers the reliability, accuracy and flexibility the industry needs.

Avricore has enjoyed a robust response from a variety of key industry players and sectors and has been engaging in a variety of technical discussions which are anticipated to lead to business. As these conversations progress, the Company will be making announcements in due course.

### **Life-Science Approach**

Avricore believes that Clinical Research Organizations (CROs) are an excellent area of growth. The Company is in late discussions with CLINART, a large Dubai based CRO, to take HealthTab + RASTR Network to 15 countries in the Middle-East North-Africa (MENA) region. This opportunity would see the Company supporting CLINART with the clinical research and market development studies they conduct with the world's largest drug-makers and NGO's. Our RASTR discussions also include a large US based CRO.

The Company has also initiated discussions with four leading international drug makers, as well as research entities in North America, the UK, EU and Middle East.

### **Fully Integrated Patient Health Records**

The Company has been in technical discussions on the integration of HealthTab into the electronic medical records and pharmacy management systems with a market leader in the provision of these systems.

HealthTab + RASTR Network's API integration capabilities make it ideal to achieve an industry first, where a consumer's test results can be directly linked to their patient health record, for real-time responses and smooth integration across the multiple platforms a health provider will use.

The Company looks forward to continuing the technical discussions and negotiations which are on-going with leading health data and laboratory service providers and announcing the concluded agreements and project plans.

### **Community Pharmacy Sector**

Avricore is focused on expanding and further deploying its HealthTab and online Avricore Platform to best meet the current community pharmacy sector's needs. Community pharmacy is expected to focus increasingly on cognitive services with attendant point of care testing in the future.

### **Hema-fer – Iron Therapy**

With the Company's change in direction Avricore has placed Hema-fer, on back order while it is assessing various options for the Hema-fer business.

## **SIGNIFICANT EVENTS AND TRANSACTIONS**

Significant events and transactions during the year ended December 31, 2019 and to the date of this MD&A include the following:

- Subsequent to the year ended December 31, 2019, the Company entered into a loan agreement with a third party for a secured loan in the amount of \$1,000,000. The Loan is for a term of one year from the date of receipt of the funds, bears interest at a rate of 10% per annum and is secured with all of the present and after-acquired property of the Company. The loan is subject to an interest reserve of \$100,000 held back from the loan advance. The Company has the right to repay all or any portion of the loan at any time without penalty. The Company has paid a loan application fee in the amount of \$30,000. The Company issued 3,480,000 bonus shares to the lender representing 20% of the aggregate sum of the loan.
- Subsequent to the year ended December 31, 2019, the Company issued 2,000,000 shares in final consideration for the acquisition of the HealthTab Inc. During the year ended December 31, 2019, the Company issued 1,111,110 in consideration for the acquisition of the HealthTab Inc.
- On August 13, 2019, the Company closed a private placement and issued 6,852,400 units at a price of \$0.05 per unit for gross proceeds of \$342,620. Each unit consisted of one common share and one share purchase warrant entitling the holder thereof to acquire additional common share of the Company at a price of \$0.15 per share until August 13, 2021.
- On March 15, 2019, the Company closed a private placement 4,206,435 common shares at a price of \$0.07 per share for gross proceeds of \$294,450.
- During the year ended December 31, 2019, the Company discontinued its over-the-counter (OTC) pharmaceutical products business.

## SELECTED FINANCIAL INFORMATION AND ADDITIONAL DISCLOSURE

The following financial data for the three years is derived from the Financial Statements and should be read in conjunction with the Financial Statements.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total revenue from continuing operations	\$ 33,000	\$ 15,395	\$ -
Loss from operations of continuing operations	\$ 1,916,252	\$ 3,458,141	\$ 1,297,576
Loss from operations of discontinued operations	\$ 186,356	\$ 678,661	\$ 1,439,142
Loss per share – basic and diluted			
Continuing operations	\$0.04	\$0.10	\$0.07
Discontinued operations	\$0.00	\$0.02	\$0.08
Total assets .....	\$ 208,399	\$ 1,200,205	\$ 2,900,186
Total current liabilities .....	\$ 673,850	\$ 314,239	\$ 402,089
Total non-current financial liabilities .....	Nil	Nil	Nil
Cash dividends declared (cents per share) .....	Nil	Nil	Nil

## RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2019

The Company incurred comprehensive loss of \$2,105,608 for the year ended December 31, 2019 (2018 - \$4,136,802).

Significant changes are as follows:

- The revenue from the continuing operations increased to 33,000 (2018 - \$15,295) with growth in the Company's POC business.
- Cost of sales of continuing operations increased to \$18,502 (2018 - \$16,258).
- Amortization expense decreased to \$180,469 (2018 - \$526,243) due to write-down of intangible assets in 2018.
- The increase in consulting fees to \$509,734 (2018 - \$494,783) was mainly due to hiring consultants experienced in business development, product management and corporate finance.
- Management fees increased to \$175,000 (2018 - \$150,000) as a result of appointing a new CEO in October 2019.
- Professional fees decreased to \$219,948 (2018 - \$268,621) primarily due to a decrease in audit fees for the year.
- Marketing and communications expenses decreased to \$247,243 (2018 - \$283,587).

- General and administrative expenses decreased to \$198,837 (2018 - \$337,690) mainly to due to decreases in travel, office maintenance and payroll expenses. The decrease in rent expense was due to a change in accounting policy upon adoption of IFRS 16.
- Share-based compensation of \$86,420 (2018 - \$372,137) was recognized for stock options granted and vested during the period.
- Write-down \$313,514 were recorded for Emerald intangible asset (2018 - \$946,173 for HealthTab and Corozon intangible assets).
- The Company realized loss from discontinued operations of \$189,356 (2018 - \$678,661) in relation to discontinuation of its OTC pharmaceuticals business.

## **FORTH QUARTER**

For the three months ended December 31, 2019, the Company incurred a comprehensive loss of \$305,760 (2018 - \$1,969,234).

- Revenue from the continuing operations was \$8,478 (2018 - \$6,817)
- Cost of sales from continuing operations increased to \$9,349 (2018 - \$3,976).
- Amortization expense decreased to \$29,510 (2018 - \$526,243) due to write-down of intangible assets in 2018.
- Management fees of \$62,500 included the compensation to the CEO and the President of the Company (2018 - \$33,750 to the President).
- Share-based compensation of \$27,895 (2018 - \$41,536) was recognized for stock options granted and vested during the period.
- Write-down \$nil was recorded for Emerald intangible asset (2018 - \$946,173 for HealthTab and Corozon intangible assets).

## **QUARTERLY FINANCIAL INFORMATION**

The following table highlights selected unaudited consolidated financial data for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2019. These results are not necessarily indicative of results for any future period and you should not rely on these results to predict future performance.

Quarter Ended	Dec 2019	Sep 2019	Jun 2019	Mar 2019	Dec 2018	Sep 2018	Jun 2018	Mar 2018
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue from continuing operations</b>	8,324	11,061	7,512	6,103	6,817	2,336	3,106	3,036
<b>Gross profit (loss) from continuing operations</b>	1,308	7,081	3,226	2,883	2,851	(7,481)	856	2,811
Share-based compensation	27,896	-	29,620	28,904	38,536	9,300	97,369	226,932
<b>Comprehensive Loss</b>	305,760	683,424	531,287	585,137	1,969,234	682,799	800,802	683,967
<b>Loss/Share - continuing and discontinued operations</b>	(0.00)	(0.02)	(0.01)	(0.01)	(0.05)	(0.02)	(0.03)	(0.02)
<b>Total Assets</b>	208,399	410,959	649,308	970,189	1,200,205	2,814,837	2,882,936	2,489,118

## LIQUIDITY AND CAPITAL RESOURCES

The Company's operations have been financed through the issuance of common shares. Management anticipate that additional financings or capital requirements to fund the current commercial operations and working capital will be required to grow the business to a sustainable level.

### Cash flows

Sources and Uses of Cash:	Year ended December 31	
	2019	2018
	\$	\$
Cash used in operating activities	(686,407)	(1,725,047)
Cash used in investing activities	-	(155,000)
Cash provided by financing activities	615,764	1,404,756
Cash and Cash Equivalents, closing balance	13,799	84,442

There is an overall cash outflow of \$70,643 for the year ended December 31, 2019 compared to cash outflow of \$475,291 in comparable period in 2018. The change in cash provided or used by various types of activities is the result of change in business direction in 2019 compared to 2018.

## Funding Requirements

Management devotes financial resources to the Company's operations, sales and commercialization efforts, regulatory approvals and business development. The Company will require cash to support working capital.

The future funding requirements will depend on many factors including:

- the extent to which we will be commercially successful in launching Health Tab and RASTR,
- the size, cost and effectiveness of our sales and marketing program, distributions and marketing arrangements,
- the ability of the Company to raise capital through the issuance of its securities.

As at December 31, 2019, the Company had a working capital deficit of \$465,454 (2018: working capital \$439,228). We believe that our cash on hand, the expected future cash inflows from the sale of our products, net proceeds from the warrants exercised, if any, may not be sufficient to finance our working capital within the next twelve months. If our existing cash resources together with the cash we generate from the sales of our products are insufficient to fund our working capital, operational needs, we may need to sell additional equity or debt securities or seek additional financing through other arrangements.

## DISCLOSURE OF OUTSTANDING SHARE DATA

The following table summarizes the Company's outstanding share capital as at report date:

	Reporting date
Common Shares	57,952,619
Stock Options	5,241,072
Stock Warrants	17,674,361

## COMMITMENTS AND AGREEMENTS

### Promissory note

Subsequent to the year ended December 31, 2019, the Company entered into a loan agreement with a third party for a secured loan in the amount of \$1,000,000. The Loan is for a term of one year from the date of receipt of the funds, bears interest at a rate of 10% per annum and is secured with all of the present and after-acquired property of the Company. The loan is subject to an interest reserve of \$100,000 held back from the loan advance. The Company has the right to repay all or any portion of the loan at any time without penalty. The Company has paid a loan application fee in the amount of \$30,000. The Company issued 3,480,000 bonus shares to the lender representing 20% of the aggregate sum of the loan.

## **CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

Our consolidated financial statements are prepared in accordance with IFRS. These accounting principles require the Company's management to make estimates, judgments and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes to the consolidated financial statements. The Company's management reviews these estimates and underlying judgments on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the year in which the estimates are revised. Actual results may differ from these estimates under different assumptions or conditions. Significant areas requiring management estimates include accounting for amounts recorded in connection recoverability of inventories, reporting of revenue recognition, bad debt and doubtful accounts, income taxes, accounting for stock-based compensation expense, and commitments and contingencies.

The significant accounting policies that we believe are the most critical in fully understanding and evaluating our reported financial results include revenue recognition, stock-based compensation and fair value measurements of financial instruments. These and other significant accounting policies are described more fully in Note 2 and 3 of our yearly consolidated financial statements for the year ended December 31, 2019.

### ***Inventory valuation***

The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by regulatory changes or other market-driven changes that may reduce future selling prices. In determining net realizable value, the Company considers such factors as turnover, historical experience, expiry dates and shelf life of the products. A change to these assumptions could impact the Company's inventory valuation and gross margin. Provision is calculated based on the expiry date. The Company attempts to sell products with short shelf life with significant rebates. Any unsold products with short shelf life and expired products are written-off.

### ***Revenue recognition***

The Company recognizes revenue to depict the transfer of promised goods and services to clients in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services by applying the following steps:

- Identify the contract with a client;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations; and
- Recognize revenue when, or as, the Company satisfies a performance obligation.

Revenue may be earned over time as the performance obligations are satisfied or at a point in time which is when the entity has earned a right to payment, the customer has possession of the asset and the related significant risks and rewards of ownership, and the customer has accepted the asset.

The Company's arrangements with clients can include multiple performance obligations. When contracts involve various performance obligations, the Company evaluates whether each performance obligation is distinct and should be accounted for as a separate unit of accounting under IFRS 15, Revenue from Contracts with Customers.

### ***Useful lives of depreciable assets***

The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain equipment.

### ***Intellectual property***

The recoverability of the carrying value of the intellectual property is dependent on successful development and commercial stage to the point where revenue is possible. The carrying value of these assets is reviewed by management when events or circumstances indicate that its carrying value may not be recovered. If impairment is determined to exist, an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount.

### ***Share-based payments***

The Company grants share-based awards to certain directors, officers, employees, consultants and other eligible persons. For equity-settled awards, the fair value is charged to the statement of operations and comprehensive loss and credited to the reserves over the vesting period using the graded vesting method, after adjusting for the estimated number of awards that are expected to vest.

The fair value of equity-settled awards is determined at the date of the grant using the Black-Scholes option pricing model. For equity-settled awards to non-employees, the fair value is measured at each vesting date. The estimate of warrant and option valuation also requires determining the most appropriate inputs to the valuation model, including the volatility, expected life of warrants and options, risk free interest rate and dividend yield. Changes in these assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's options and warrants issued. Management must also make significant judgments or assessments as to how financial assets and liabilities are categorized.

## **NEW ACCOUNTING POLICIES ADOPTED**

### **Leases**

Effective January 1, 2019, the Company adopted IFRS 16 Leases using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

A contract is, or contains, a lease if the contract conveys a lessee the right to control the use of lessor's identified asset for a period of time in exchange for consideration.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective January 1, 2019:

#### *The Company as a lessee*

A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability.

On adoption of IFRS 16, the Company recognized lease liabilities of \$68,253 in relation to lease arrangements measured at the present value of the remaining lease payments, adjusted by commitments in relation to arrangements not containing leases, short-term and low-value leases, and discounted using the Company's

incremental borrowing rate as of January 1, 2019. The incremental borrowing rate used to determine the lease liabilities at adoption was 12%. The associated right-of-use assets were measured at the amount equal to the lease liabilities on January 1, 2019, with no impact on retained earnings. See Note 8 – "Right-of-Use Assets" and Note 12 – "Lease Liabilities" of the Consolidated Financial Statements for additional information regarding the Company's leases.

Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

#### *The Company as a lessor*

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. All other leases are classified as finance leases.

Leases of the Company's POC systems to customers are classified as operating leases. Lease payments from operating leases are recognized as income on a straight-line basis. All costs, including depreciation, incurred in earning the operating lease income are recognized as an expense. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as an expense over the lease term on the same basis as the lease income. The depreciation for depreciable underlying assets subject to operating leases is in accordance with depreciation policy for the Company's equipment.

## **FINANCIAL INSTRUMENTS AND RISKS**

### **Operational Risk Factors**

#### ***Limited Operating History***

There is no assurance that Avricore will earn profits in the future, or that profitability will be sustained. Operating in the pharmaceutical and biotechnology industry requires substantial financial resources, and there is no assurance that future revenues will be sufficient to generate the funds required to continue AVRICORE business development and marketing activities. In case AVRICORE does not have sufficient capital to fund its operations, the management may be required to restructure the operations.

#### ***Going concern***

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operations for the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business. The Company has always experienced operating losses and negative operating cash flows. Operations have been funded by the issuance of share capital. These conditions may cast substantial doubt on the Company's ability to continue as a going concern.

***Development of Technological Capabilities***

The market for Avricore's products is characterized by changing technology and continuing process development. The future success of Company's business will depend in large part upon our ability to maintain and enhance the Company's technological capabilities, develop and market products and services which meet changing customer needs and successfully anticipate or respond to technological changes on a cost effective and timely basis. Although we believe that Company's operations provide the products and services currently required by our customers, there can be no assurance that the Company's process development efforts will be successful or that the emergence of new technologies, industry standards or customer requirements **will** not render Avricore's products or services uncompetitive. If Avricore needs new technologies and equipment to remain competitive, the development, acquisition and implementation of those technologies and equipment may require us to make significant capital investments.

***Dependence on Key Personnel***

We are dependent to a large extent upon the continued services of our senior management team and other key employees such as sales and technical personnel. There is intense competition for skilled employees and our failure to recruit, train and retain such employees could have an adverse effect on our business, financial condition or operating results.

**Financial Instruments and Risk Management**

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and asset acquisition liability. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of **financial** instruments.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

***Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held through a large Canadian financial institution. The cash equivalent is composed of a guaranteed investment certificate and is issued by a Canadian bank with high investment-grade ratings. The Company does not have financial assets that are invested in asset-backed commercial paper.

The Company performs ongoing credit evaluations of its accounts receivable but does not require collateral. The Company establishes an allowance for doubtful accounts based on the credit risk applicable to particular customers and historical data.

Approximately 45% of trade receivables are due from one customer at December 31, 2019 (2018 — 51% from one customer).

Pursuant to their collective terms, accounts receivable was aged as follows:

	December 31, 2019	December 31, 2018
	\$	\$
Not past due	-	223,249
0 — 30 days past due	-	25,165
31 — 90 days past due	3,099	1,945
Over 90 days past due	12,375	29,921
	<b>15,474</b>	<b>280,280</b>

As at December 31, 2019 and 2018, the allowance for doubtful accounts receivable was \$nil.

### ***Liquidity risk***

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company monitors its spending plans, repayment obligations and cash resources, and takes actions with the objective of ensuring that there is sufficient capital in order to meet short-term business requirements. To facilitate its expenditure program, the Company raises funds primarily through public equity financing. The Company anticipates it will have adequate liquidity to fund its financial liabilities through future equity contributions. As at December 31, 2019, the Company's financial liabilities were comprised of accounts payable and accrued liabilities and lease liabilities of \$673,850 (2018 - \$314,239).

### ***Currency risk***

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. As all of the Company's purchases and sales are denominated in Canadian dollars, and it has no significant cash balances denominated in foreign currencies, the Company is not exposed to foreign currency risk at this time.

### ***Interest rate risk***

Interest rate risk is the risk that fair values or future cash flows will fluctuate as a result of changes in market interest rates. In respect of financial assets, the Company's policy is to invest cash at floating interest rates and cash reserves are to be maintained in cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. The Company is not exposed to significant interest rate risk.

## RELATED PARTY TRANSACTIONS

For the year ended December 31, 2019 and 2018, the Company recorded the following transactions with related parties:

- a) \$45,000 in consulting fees and \$31,250 in management fees to the Chief Executive Officer of the Company (2018 - \$nil)
- b) \$143,750 in management fees to the President and former Chief Executive Officer of the Company (2018 - \$150,000).
- c) \$75,000 in professional fees to a company controlled by the Chief Financial Officer of the Company (2018 - \$nil)
- d) \$47,270 in consulting fees to a Company of which a former Chief Financial Officer and former Corporate Secretary of the Company are employees (2018 - \$nil).
- e) \$14,000 in professional fees to a Company controlled by a former Chief Financial Officer (2018 - \$nil).
- f) \$nil in professional fees to a Company controlled by a former Chief Financial Officer (2018 - \$37,440).
- g) \$126,667 in consulting fees to an officer of the Company's subsidiary, HealthTab Inc. (2018 - \$Nil).

Related party transactions not otherwise described in the consolidated financial statements are shown below. The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, consist of the following:

	<b>Year ended December 31,</b>	
	2019	2018
	\$	\$
Professional fees	89,000	37,440
Management fees	175,000	150,000
Consulting fees	218,936	-
Share-based compensation	41,383	289,008
	<b>524,319</b>	<b>476,448</b>

As at December 31, 2019 the following amounts due to related parties were included in accounts payable and accrued liabilities.

<b>Due to</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
	\$	\$
President and former Chief Executive Officer	134,339	-
Chief Executive Officer and former Vice President of Branding, Communications and Public Affairs	59,304	-
Company controlled by the CFO	5,513	-
Officer of HealthTab Inc.	122,500	-
<b>Total</b>	<b>321,656</b>	<b>-</b>

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements, which would require disclosure.

## **CONTACT**

### **Officers and Directors**

Hector Bremner, CEO, Director

Bob Rai, President, Director

Kiki Smith, CFO

David Hall, Chairman

Alan Amstein, Director

David Farnfield, Director

Dr. Robert Sindelar, Director

### **Contact**

Avricore Health Inc.  
Suite 2300, 1177 West Hastings Street  
Vancouver, BC V6E 2K3

Tel: 604-484-1229