

INNOVOTECH INC

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and 9-Month Periods Ended September 30th, 2020 (as of November 12th, 2020)

The following Management Discussion and Analysis (MD&A) of results of operations and financial position as of September 30th, 2020 should be read in conjunction with the audited financial statements of Innovotech Inc. ("Innovotech", "we", or "the Company") for the year ended December 31, 2019 and the related notes thereto. This MD&A is provided by management using information available up to November 12th, 2020.

Management is responsible for the information contained in the MD&A and its consistency with information presented, reviewed, and approved by the Audit Committee and Board of Directors. Additional information pertaining to the Company can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) web site at www.sedar.com, or at www.innovotech.ca.

This MD&A and other materials filed with the Canadian securities regulators contain forward-looking statements that are subject to risks and uncertainties that cannot be predicted or quantified; actual results may differ materially from past results and those expressed or implied by any forward-looking statements.

Forward-looking statements may include words such as "expects", "plans", "will", "believes", "estimates", "intends", "may", and other words of similar meaning and may relate to future financial performance, business strategies, or safety and efficacy of unapproved products. Such forward looking statements are subject to risks, uncertainties, and other factors many of which are beyond the control of Innovotech.

Factors that could cause or contribute to such risks or uncertainties include, but are not limited to the regulatory environment including the difficulty of predicting regulatory outcomes; changes in the value of the Canadian dollar; the Company's reliance on a small number of customers including government organizations; the demand for new products and the impact of competitive products, service and pricing; availability and cost of raw materials; fluctuations in operating results; government policies or actions; progress and cost of clinical trials; reliance on key strategic relationships; uncertainty related to intellectual property protection and potential costs associated with its defense; the Company's exposure to lawsuits and other matters beyond the control of management; the impact of the adoption of new accounting standards on Company's financial results.

Scientific information that relates to unapproved products or unapproved uses of products is preliminary and investigative. No conclusions can or should be drawn regarding the safety or effectiveness of such products. Only regulatory authorities can determine whether products are safe and effective for the uses being investigated.

The cautionary statements referred to above should be considered in connection with all written or oral statements, especially forward-looking statements that are made by the Company or by persons acting on its behalf and in conjunction with its periodic filings with Securities Commissions, including those contained in the Company's news releases.

Should known risks or unknown risks or uncertainties materialize, or should management's assumptions prove inaccurate, actual results could vary materially from those anticipated. The Company undertakes no obligation to publicly make or update any forward-looking statements, except as required by applicable law.

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OVERVIEW OF THE BUSINESS

Innovotech Inc. (the “Company”) was incorporated in 2001 under the Business Corporation Act of Alberta. The activities of the Company are sales of its products, contract research conducted for outside customers, and research and development to identify products for future commercialization. The Company’s intellectual property includes a family of silver periodate antimicrobial compounds (InnovoSIL™) for medical application, and a right to acquire a linked molecule being tested for effective subdermal antioxidant delivery. The Company owns, sells, and uses proprietary assays used in growing microbial biofilms for research purposes. The Company is a public company listed on the TSX Venture Exchange. Its registered office is in Edmonton, Alberta, Canada.

BUSINESS STRATEGY AND MARKETING

The Company has two main businesses, contract research, and the production and sale of the MBEC Assay® Kit and is working to gain exposure to more consumer-focused biotech products and activities.

In its contract research business, the Company is a leader in a niche market related to testing and qualifying medical devices such as implants and other products for their susceptibility to, or resistance to the formation of microbial biofilms. The Company has methodologies, equipment, and long experience that it believes give it certain proprietary advantages and efficiencies. Recently, Innovotech designed, built, and holds a provisional patent to a device that accelerates and improves the quality of testing of catheters and stents for susceptibility to or resistance to microbial biofilm formation (See “About the new BEST*plus* Assay™”, below). The Company continues to design and build devices tailored to testing client-specific types of medical devices.

Innovotech manufactures and sells the MBEC Assay® Kit, which keeps its name in the forefront of research and medical device testing in regard to microbial biofilms as outlined above. The consistent revenues from the global sale of the Kits help to mitigate the volatility inherent in contract research services. The association of the Kit with its contract research services contributes to Innovotech’s marketing efforts. In 2021, we will seek to extend the reach of the Kits into agribusiness laboratories based on proprietary coating of the Kits for that purpose.

The Company pursues new accounts in its contract research business on a direct contact basis. We use direct e-mail and telephone communication supported by personal visits and conference attendances (paused during Covid-19) to maintain and expand our clientele. All approaches have gained traction as indicated by Innovotech’s increasing revenues in recent quarters.

Contributing to industry awareness of Innovotech’s research capabilities is our publishing of Open Access research papers authored by Innovotech’s staff either alone or in partnership with other science-based organizations. Such papers contribute to the general knowledge base of the microbiology universe. Links to these papers are available on the company website, <https://www.innovotech.ca/research/publications/>.

Strategically, the Company is alert for other business activities and continues to look for opportunities to diversify its business, extend its reach and increase its revenues. This strategy is supported by our \$7.5 million (Dec. 31, 2019) of long-term tax pools available to reduce future net income for tax purposes.

THREE-MONTH OVERALL PERFORMANCE TO SEPTEMBER 30, 2020:

Financial

Third quarter revenues of \$351,476 were 41% higher than the prior year third quarter revenues of \$248,884. Net income grew to \$93,218 versus a net income of \$15,200 in the prior year. Working capital rose to \$642,046 from \$148,030 on December 31, 2019.

InnovoSIL™-1 Research Agreement

On July 14th, 2020, Innovotech announced a collaboration Agreement (the “Agreement”) with a global medical device company on InnovoSIL™-1, our complex silver-periodate compound. The Agreement is significant as it provides for research targeted at advancing it toward commercial applications in medical devices. The quarterly payments receivable under the Agreement contribute to our income. Patent costs are now largely for our partner in the Collaboration Agreement. We look forward to the results of continuing R&D on InnovoSIL™-1.

Acquisition

On August 17th, the Company acquired the right (but not the obligation) to earn a 60% interest in Nou Life Sciences Inc whose assets consist of a patent on the linking of alpha lipoic acid and L-carnitine into one molecule for improved penetration of human skin to obtain deeper subdermal delivery of the two anti-oxidants (subject to regulatory authority). To close acquisition of the 60% interest Innovotech must provide \$100,000 in R&D costs over 2 years. This earn-in acquisition is in our biotech space and is part of a plan to see Innovotech accessing early beach heads in consumer markets that are larger than our contract research business allows for. Work on the Nou Life linked anti-oxidants has commenced.

Financing

On September 2nd, Innovotech received final approval from the TSX Venture Exchange for the close of a private placement. At the close, Innovotech raised \$375,000 through the issuance of 1,875,000 units at a price of 20 cents per unit. Each unit was composed of one common share and one-half common share purchase warrant, and one whole warrant entitles the holder to purchase one additional common share at a price of 25 cents for a period of three years following the date of closing.

If, after four months and one day following the date of closing, the closing price of the common shares on the principal market on which such shares trade is equal to or exceeds 40 cents per common share for 20 consecutive trading days, then Innovotech will have the right to accelerate the expiry date of the warrants to 30 calendar days following the date that Innovotech has issued a press release announcing the exercise of the acceleration right.

The financing was raised for working capital purposes on the basis that when combined with the profitability of the quarter ended June 30th and the third quarter reported herein the result would be evident in an improved balance sheet in the current year (see “Assets, Liabilities & Shareholder’s Equity” and “Liquidity & Capital Resources” below).

Operations Event

On September 24th, management and staff of Innovotech reached 100,000 laboratory hours without a single lost time accident. We are all very proud of this and we know shareholders will join us in congratulating and thanking our team for a stellar performance during a uniquely difficult year.

THREE-MONTH FINANCIAL RESULTS OF OPERATIONS TO SEPTEMBER 30, 2020:

Contract research revenues in Q3 were \$274,173 versus \$160,667 in the comparable period of the prior year. Higher contract research revenues were, we believe, due to 2018-20 increases in client contact, innovations in test design that have generated interest by new and old clients, and, in particular, ISO 17025 quality control certification. MBEC[®] Assay plate revenues were \$68,471 versus \$88,217 in the prior year. The lower Q3 2020 plate sales are largely due to slow research laboratory re-openings during the Covid pandemic. They are, however, an increase over product sales of \$42,023 in Q2 of the current year.

Revenue & gross profit

	Q3 2020	Q3 2019
Contract research fees	274,173	160,667
Product sales	68,471	88,217
Other revenue	8,832	
Gross revenue	351,476	248,884
Cost of sales	76,795	71,338
Gross profit	274,681	177,546

Operating expenses & net income (loss)

	Q3 2020	Q3 2019
General & administrative	156,034	167,087
Bad debt expense	-	-
Sales & marketing	-	-
Research & development (R&D)	23,929	4,140
Grants	-	(10,380)
Total operating expenses	179,963	160,847
Interest expense	1,500	1,499
Net income (loss)	93,218	15,200

The 41% increase in revenue drove the 6-fold increase in profitability in Q3 2020 over Q3 2019.

NINE- MONTH FINANCIAL RESULTS OF OPERATIONS TO SEPTEMBER 30, 2020:

The 9-month period to September 30th began with Q1 being negatively impacted by the COVID-19 pandemic and with revenue deferred into Q2. In Q1 Innovotech lost \$115,298. Q2 responded with higher contract research volumes, lower costs, and a \$37,533 Canada Emergency Wage Subsidy (CEWS) grant to generate a net profit of \$121,974. The strong revenue and profit performance in this, the third quarter of the 2020 year, together with the financing described above have combined in the 9-month period to record a profit and to significantly strengthen Innovotech's balance sheet.

Operations over the 9 months to September 30th, 2020 generated a 7% increase in revenues to \$811,767 and a net profit of \$99,894 versus a loss of \$4,349 in the prior year. The revenues reflect the same innovation, client contact and quality control factors that, in our view, generated the higher 3rd quarter revenues described above. The reduced 9-month G&A expenses are due to related parties forgiving fees and interest costs in response to the weak first quarter. The CEWS grant contributed to the overall profitability in the 9-month period.

Revenue & gross profit:

	9 MO. 2020	9 MO. 2019
Contract research fees	634,970	530,891
Product sales	167,965	226,628
Other	8,832	-
Gross revenue	811,767	757,519
Cost of sales	223,625	228,919
Gross profit	588,142	528,600

Operating expenses and net income (loss)

	9 MO. 2020	9 MO. 2019
General & administrative	489,929	502,227
Bad debt expense	-	22,873
Sales & marketing	-	39
Research & development	36,759	16,063
Grants	(40,940)	(12,753)
Total operating expenses	485,748	528,449
Interest	(2,500)	(4,500)
Net profit (loss)	99,894	(4,349)

EBITDAS

EBITDAS, or earnings before interest, taxes, depreciation, amortization, and stock-based compensation, is not a Generally Accepted Accounting Principle; but it is a useful measure of comparative operational performance over quarterly and annual time periods. Negative EBITDAS in Q1 2020 was offset by Q2 and Q3 strong performances resulting in EBITDAS of \$114,739 for the 9 months to September 30th, 2020.

	9 MO. 2020	9 MO. 2019
Net income (loss)	99,894	(4,349)
Depreciation and amortization	12,252	9,385
Loss on disposal of equipment	93	-
Interest	2,500	4,500
Share-based compensation	-	5,771
	114,739	15,307

ASSETS, LIABILITIES & SHAREHOLDER'S EQUITY

Nine-month net profit of \$99,894 generated cash flow of \$112,239. Net changes to working capital provided \$70,544. Financing activities, including issuance of 1,875,000 treasury shares described above, provided \$415,622. These events, offset by \$36,345 of capital expenditures, combined to increase cash by \$564,560 to \$661,231. Working capital rose to \$642,046 compared to \$148,030 as of December 31st, 2019.

	Sept. 30, 2020	Dec. 31, 2019
Current assets	804,050	224,825
Equipment & other	74,057	50,057
Total assets	878,107	274,882
Current liabilities	162,004	76,795
Long-term liabilities	140,000	100,000
Total liabilities	302,004	176,795
Shareholder's equity	576,103	98,087

LIQUIDITY & CAPITAL RESOURCES

Innovotech has a history of frequent quarterly and annual losses caused in part by high levels of expensed R&D costs. The Company has, in the past, funded its operations primarily from equity financing, shareholder loans and government grants and loans. The Company has worked to change this pattern and achieved that in Q2 and Q3, 2020. The two quarters of profitability and the \$375,000 unit financing combined to increase cash and working capital.

As of September 30, 2020, the Company had cash and cash equivalents of \$661,231 and working capital of \$642,046.

OUTLOOK

In common with many companies, Innovotech is unable to gauge the longer-term effects of the COVID-19 pandemic on the operations of the company. We believe, however, that it is important to stay fully operational during these times.

Our vision of contracts ahead is short term and extends out 60 to 120 days. We caution that contracts can be postponed from time-to-time and are cancellable until signed. However, management has continued to add new clients in part through our early 2019 certification under ISO 17025 quality standards, in part through consistent old and new client contact, and in part by leveraging our innovative work in the design of new test devices. We see the good effect of these efforts in our current revenues, which may lead to a constructive finish to the 2020 year.

DEVELOPMENTS SUBSEQUENT TO SEPTEMBER 30TH, 2020

On October 8th, Innovotech repaid \$5,000 of the \$40,000 Canada Emergency Business Account loan. On November 2nd, a further \$5,000 was repaid reducing the CEBA loan to \$30,000, which, if repaid by December 31, 2022 will result in loan forgiveness of \$10,000 of the principal amount.

On October 16th, the Company agreed to acquire a \$150,000 8% debenture of CanBiocin Inc., which is convertible into 120,000 CanBiocin shares. CanBiocin is a private Edmonton, Alberta, company incorporated in 1998. The \$150,000 cost of acquisition is to be paid by way of 625,000 Innovotech common shares issued at a value of \$0.24, the closing price on the TSX-V on the 15th of October. The debenture is being acquired from Lonsdale Capital Corporation (“Lonsdale”), a significant shareholder of both Innovotech and CanBiocin. CanBiocin is demonstrating growth in orders for its multiple lines of companion animal and farm animal probiotics. The transaction will be subject to regulatory approval and subject to the related party exemptions contained in Multilateral Instrument 61-101. This modest acquisition is in our biotech space and is a part of a plan to see Innovotech increasingly involved and invested in larger consumer markets than our contract research business allows for. In addition to achieving exposure to that objective, the transaction will add \$12,000 of annual interest income.

On October 30th, 2020, the Company repaid the \$100,000 6% debenture owing to Lonsdale Capital Corporation due July 15, 2022 thus saving \$6,000 of annual interest expense. Innovotech retains access to a line of credit from Lonsdale in the same amount until December 31, 2021, at which time it will be subject to renewal.

SUMMARY OF QUARTERLY RESULTS

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Gross revenue	351,476	333,904	126,387	228,706	248,884	286,614	222,021	199,615
Cost of Sales	76,795	88,613	58,217	62,193	71,338	88,491	69,090	57,937
Gross profit	274,681	245,291	68,170	166,513	177,546	198,123	152,931	141,678
Expenses	181,463	123,317	183,468	210,925	160,847	203,154	167,449	109,833
Net income (loss)	93,218	121,974	(115,298)	(44,412)	15,200	(5,031)	(14,518)	31,845
Net income (loss) per share	\$0.00	\$0.00	(\$0.00)	(\$0.00)	\$0.00	(\$0.00)	(\$0.00)	\$0.00

ABOUT INNOVOSIL™-1

Innovotech has financed and completed intensive R&D on the development and application of silver periodate compounds over past years. In terms of the antimicrobial and physicochemical properties of the resulting products, the work has been wholly successful.

InnovoSIL™-1 is a silver-based antimicrobial compound protected by patents granted in both the USA and Europe. It has the unique feature that the silver component is not rapidly inactivated by components of bodily fluids. The July 2020 Collaboration Agreement will provide for continuing R&D that is intended to advance InnovoSIL™-1 toward commercial development.

Pursuant to the Agreement we have recently filed and received European patent validation in Germany, France, Denmark, Hungary, Ireland, Italy, Lithuania, Netherlands, Spain, Sweden and Great Britain. We have also filed a divisional patent application in Europe.

ABOUT THE NEW BEST^{plus} ASSAY™

The Company filed for a patent on its BEST^{plus} Assay™ invention. U.S. Provisional Patent Application No. 62/977,953 was filed on Feb 18th, 2020. We believe that this device significantly enhances our competitive position in our industry. There is no single *in vitro* testing method that fits all medical devices since they are so diverse and have so many applications and specific clinical uses. Therefore, there is an ongoing need to develop and refine *in vitro* testing assays to improve their clinical relevance for each device.

Methods of testing that allow for bridging between *in vitro* testing and animal studies are important, practical, and economical for the medical device manufacturer. Such positive and representative outcomes give more confidence in the device and its performance in future clinical settings and reduce the amount of *in vivo* testing required.

The BEST^{plus} Assay™ is a high throughput *in vitro* platform that allows for easy access to every lumen of a catheter or stent for preconditioning, rinse, microbial challenge, and microbial recovery while allowing for simultaneous procedures on the extraluminal space. The configuration allows for the use of one single catheter to create, for example, a triplicate set for data analysis by using multiple lock mechanisms around the looped device. Not only is this assay clinically more relevant, but it is also more economical as it

requires fewer samples to run antimicrobial validation testing for both surfaces as well as reduced labour hours.

ABOUT NOU LIFE SCIENCES INC.

The Company negotiated an earn-in agreement that gives it the right but not the obligation to earn a 60% interest in Nou Life Sciences.

The Nou Life patent rests on the linking of alpha lipoic acid and L-carnitine into one molecule. Both Lipoic acid and Carnitine are well known antioxidants that have applications in health care, including skin products. The linking of the two molecules has been indicated by Nou Life to increase the beneficial properties of the separate molecules by improving their transdermal penetration, which is necessary in order to perform subdermal antioxidant activity toward a healthier skin. The objective of the earn-in Agreement is to confirm performance of the linked molecules toward a more effective antioxidant in skin care applications.

Innovotech's research and testing of the linked molecules will seek to confirm that the linked molecules improve function in skin treatment sufficiently to encourage their use in nutraceutical and cosmetic applications. At the same time, Innovotech will investigate the indicated extent of the molecule's skin penetration in anticipation of a positive effect on nerve cell reinvigoration for treatment of neuropathy.

ABOUT CANBIOCIN INC.

On October 16th, Innovotech agreed to acquire a \$150,000 8% convertible debenture of CanBiocin Inc. CanBiocin is a global leader in species-specific companion animal and livestock probiotic development. With a mission to build health from the inside out, the company targets overall microbiome health to support all animal body systems and functions. CanBiocin began as a University of Alberta spin-off company and first commercialized Micocin®, a probiotic metabolite used to inhibit the growth of *Listeria monocytogenes* in processed meat products and may have beneficial application in livestock feed. Today, its premium canine and other pet probiotic lines help global pet food manufacturers fill their customers' need to care for their pets as integral members of their families deserving of the same attention and investment in their health and wellness. CanBiocin has a growing number of customers in North America, as well as internationally, and can be found online at www.canbiocin.ca.

CONTRACTUAL OBLIGATIONS

Innovotech records long-term debt of \$140,000 on its September 30th balance sheet in the amount of a note for \$100,000, comprising the full amount of an unsecured debenture provided by a shareholder bearing interest at 6% per annum maturing on July 15th, 2022; and a \$40,000 term loan accessed through the Canada Emergency Business Account (CEBA). The CEBA loan is non-interest-bearing until December 31st, 2022. \$10,000 of the principal amount will be forgiven if paid before that date which the Company intends to do.

As noted in Developments Subsequent to September 30th, the CEBA loan was reduced by \$5,000 on October 8th, and by a further \$5,000 on November 2nd to \$30,000 remaining to be paid. The note for \$100,000 owing to a shareholder was repaid in full on October 30th.

OUTSTANDING SHARE CAPITAL

As at the date of this MD&A, there are 38,274,612 Class A common shares issued out of an unlimited number of Class A voting shares. There are as of the date of this MD&A, incentive stock options outstanding in the amount of 2,186,000 optioned shares.

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GEOGRAPHIC SALES INFORMATION

	Three months ended		Nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
	\$	\$	\$	\$
Canada	2,325	20,736	33,110	81,190
United States	320,577	157,519	694,884	531,893
Rest of World	28,574	70,629	83,773	144,436
	<u>351,476</u>	<u>248,884</u>	<u>811,767</u>	<u>757,519</u>

RISK MANAGEMENT

Innovotech recognizes currency risk, credit risk and liquidity risk as primary risks.

Innovotech's objectives when managing capital are to ensure its ability to continue as a going concern. The Company attempts to maximize return to shareholders by minimizing shareholder dilution in a manner consistent with maintaining adequate working capital, equipment, facilities and access to opportunities with which to conduct its operations.

Currency risk:

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's reporting currency is the Canadian dollar, and it incurs costs primarily in that currency. It realizes its revenues primarily in US dollars. A rising Canadian dollar in US dollar terms would lead to a decrease in the Company's revenue all other things being equal. The Company does not use derivative instruments to hedge its exposure to foreign currency risk.

Credit risk:

The Company is exposed to credit risk through its cash and accounts receivable.

The Company's principal credit risk is the risk that a counterparty will fail to discharge its financial obligation in payment for the Company's services. The Company endeavors to mitigate credit risk to ½ its contract research revenues as it requires that 50% of the estimated cost of its contracts be paid prior to beginning work on a contract. We do not insure our credit risks.

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

We manage accounts payable against accounts receivable and carry a balance of cash to accommodate that. Innovotech's planned 2020 operational expenditures do not exceed its committed sources of funds and are manageable against the Company's expected revenues. As at September 30th, 2020, our current assets were \$804,050, and our current liabilities were \$162,004 providing a working capital balance of \$642,046.

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COVID-19 risk:

In addition to the above financial risks, Innovotech is aware of risks attached to the COVID-19 pandemic. The COVID-19 outbreak has forced many businesses to close, leading to an unprecedented disruption of business in many sectors. Innovotech has put in place risk mitigation measures to separate people from each other through physical distancing including physical barriers. Innovotech requires that employees stay at home if feeling ill with possible symptoms of COVID-19 until criteria to discontinue isolation have been met. In addition, we have posted highly visible signage to discourage employees/clients from entering the workplace unless they feel well. In addition to wearing medical masks in the workplace, management has provided increased access to hand sanitizer dispensers and established increased environmental cleaning and disinfecting protocols for employees' work environments.

SIGNIFICANT ESTIMATES & CRITICAL JUDGEMENTS

The preparation of interim financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances.

Non-financial assets, including equipment, are reviewed for indicators of impairment at each reporting date. Where impairment indicators are identified, the Company uses discounted cash flow models to determine the recoverable amount of the assets, which drives the conclusion of whether the impairment exists, and if it does, the amount of impairment to record. These models require assumptions to be formulated about future cash flows, margins, and discount rates, which are made using careful judgment, but are nonetheless subject to estimation risk.

Determining the fair value of stock options and warrants requires judgment related to the choice of a pricing model, the estimation of expected stock price volatility, and the expected term of the instrument. Any changes in the estimates utilized to determine fair value could result in a significant change in the amount of share-based compensation charged to operations.

The significant accounting policies that are most critical in fully understanding and evaluating the reported results in this MD&A are included in notes 1 to 3 to the Company's Annual Financial Statements as of December 31, 2019.

End