

**INNOVOTECH INC****Management's Discussion and Analysis of Financial Condition  
and Results of Operations for the Three-month Period Ended March 31<sup>st</sup>, 2021  
(as of May 25<sup>th</sup>, 2021)**

*The following Management Discussion and Analysis (MD&A) of results of operations and financial position as of March 31st, 2021 should be read in conjunction with the audited financial statements of Innovotech Inc. ("Innovotech", "we", or "the Company") for the year ended December 31, 2020 and the related notes thereto. This MD&A is provided by management using information available up to May 25<sup>th</sup>, 2021.*

*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](http://www.sedar.com), or at [www.innovotech.ca](http://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 the 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.

E-mail: [info@innovotech.ca](mailto:info@innovotech.ca)

## 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 owns, sells, and uses proprietary assays used in growing microbial biofilms for research purposes. The Company’s intellectual property includes a family of silver periodate antimicrobial compounds (InnovoSIL™) for medical applications, and a right to acquire a linked molecule being tested for effective subdermal antioxidant delivery. The Company is a public company listed on the TSX Venture Exchange. Its registered office and laboratories are 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. It is seeking investment in more consumer-focused biotech products and businesses.

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. Innovotech has methodologies, equipment, and long experience that give it certain proprietary advantages and efficiencies. Innovotech is accredited by CALA (Canadian Association for Laboratory Accreditation Inc.) to ISO/IEC 17025 (testing accreditation number A4146 for Enumerating Bacteria – Solids and Enumerating Bacteria – Liquid).” The Company designs and builds devices tailored to testing client-specific types of medical devices.

Innovotech manufactures and sells the MBEC Assay® Kit, a modified Petri Dish for biofilms, 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 global sales of the Kits help mitigate the volatility inherent in contract research services. The association of the Kit with its contract research services contributes to Innovotech’s contract research marketing efforts. The Company applies proprietary coatings on Kits tailored to laboratory testing requirements.

The Company has historically pursued new accounts in its contract research business on a direct contact basis using direct e-mail and telephone communication supported by personal visits and conference attendances (paused during Covid-19) to maintain and expand our clientele. These approaches have been effective as indicated by our having added new clients and experienced rising revenues in 2019 and 2020. In 2021, we have budgeted to widen our exposure to potential new accounts. 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 ; [www.innovotech.ca/research/publications/](http://www.innovotech.ca/research/publications/). Strategically, Innovotech is alert for participation in other related business activities and continues to look for opportunities to diversify its business, extend its reach and increase its revenues. This strategy is supported by the Company’s \$7,485,000 of long-term tax pools available to reduce future net income for tax purposes.

### THREE-MONTH PERFORMANCE TO MARCH 31<sup>ST</sup>, 2021

First quarter (Q1) revenues of \$308,575 were 144% above prior year Q1 revenues of \$126,387. Net income of \$22,235 improved by \$137,533 from a loss of \$115,298 in Q1 of the prior year. Working capital rose to \$617,233 from \$595,263 at the December 31<sup>st</sup>, 2020 yearend.

On January 19th, 2021, the Company received regulatory approval to close a transaction whereby the Company has the right but not the obligation to earn a 60% undivided equity interest in Nou Life Sciences Inc in return for completing an investment of \$100,000 in development expenses on Nou Life's patented skin treatment technology (See "About Nou Life Sciences", below).

On February 19th, 2021, the Company received regulatory approval to close the acquisition of 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. Payment was by way of 625,000 Innovotech common shares issued at a value of \$0.24. This acquisition is part of a plan to see Innovotech increasingly involved and invested in larger consumer markets than our contract research business contemplates. In addition to achieving exposure to that objective, the transaction adds \$12,000 of annual interest income to revenue (See "About CanBiocin Inc., below).

### THREE-MONTH FINANCIAL RESULTS OF OPERATIONS TO MARCH 31<sup>ST</sup>, 2020

Contract research revenues in Q1 were \$214,250 versus \$68,916 in the comparable period of the prior year in which the emergence of Covid-19 negatively affected revenues. MBEC<sup>®</sup> Assay plate revenues were \$79,218 versus \$57,471 in the prior year for the same reason. Other revenue reflects exclusivity payments from our InnovoSIL<sup>™</sup>-1 Collaboration Agreement partner.

#### Revenue & gross profit

	Q1 2021	Q1 2020
Contract research fees	214,250	68,916
Product sales	86,036	57,471
Other revenue	8,289	-
Gross revenue	308,575	126,387
Cost of sales	80,674	58,217
<b>Gross profit</b>	<b>227,901</b>	<b>68,170</b>

#### Operating expenses & net income (loss)

	Q1 2021	Q1 2020
General & administrative	200,050	177,209
Sales & marketing	2835	-
Research & development (R&D)	4,862	8,666
Grants	-	(3,407)
<b>Total operating expenses</b>	<b>207,747</b>	<b>182,468</b>
Interest expense	(2,081)	1,000
<b>Net income (loss)</b>	<b>22,235</b>	<b>(115,298)</b>

The 144% increase in revenue in Q1 2021 over Q1 2020 was the primary driver of profitable operations.

## 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. In Innovotech's case, EBITDAS and cash flow (also not a GAAP term) are almost the same number on account of having no debt on which to pay interest and being able to access prior year's losses to reduce net income for tax purposes.

	Q1 2021	Q1 2020
Net income (loss)	22,235	(115,298)
Depreciation and amortization	3,980	3,542
Loss on disposal of equipment	-	93
Interest	(699)	1,000
	<b>25,516</b>	<b>(110,756)</b>

## ASSETS, LIABILITIES & SHAREHOLDER'S EQUITY

First quarter profit of \$22,235 generated cash flow of \$25,516. Net changes to working capital provided \$5,298. These events, offset by \$3,556 of capital expenditures, combined to increase cash by \$27,888 to \$558,032. Working capital rose to \$617,233 versus \$595,623 at our December 31<sup>st</sup>, 2020 yearend.

The acquisition of the aforementioned \$150,000 CanBiocin debenture also added to shareholder's equity which increased from \$644,978 at our December 31<sup>st</sup> yearend to \$785,963 as of March 31<sup>st</sup>.

	Mar. 31, 2021	Dec. 31, 2020
Current assets	775,404	752,725
Equipment	69,290	69,715
Investments	119,450	-
<b>Total assets</b>	<b>964,144</b>	<b>822,440</b>
Current liabilities	158,181	157,462
Long-term liabilities	20,000	20,000
Total liabilities	178,181	177,462
<b>Shareholder's equity</b>	<b>758,963</b>	<b>644,978</b>

## LIQUIDITY & CAPITAL RESOURCES

Innovotech has a history of frequent quarterly and annual losses caused in part by high levels of expensed R&D and patent 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 its 2020 year. Q1 profitability has maintained that trend with a consequent increase in working capital.

As of March 31, 2021, the Company had cash and cash equivalents of \$558,032 and working capital of \$617,233.

## OUTLOOK

Innovotech continues to be unable to accurately gauge the longer-term effects of the COVID-19 pandemic on operations of the company. However, the Company has stayed fully operational during the pandemic and will use its best efforts to continue to do so. See “Covid-19 risk” under Risk Management.

Improved Q1 revenues generated the above-noted \$137,533 turnaround from loss to profit with which we begin the 2021 year. Innovotech’s forward vision of the trend of its contract research has improved. We have added new customers and new business that have the effect of decreasing the volatility of quarterly revenue in the contract research side of the business. Innovotech therefore expects the rising trend of revenues achieved since 2018 will continue and will likely accelerate through 2021. To that end, we have increased our laboratory space, added new equipment, and hired two additional microbiologists.

The Company will maintain its focus on growing revenues internally while being alert to opportunities to expand the business through external asset acquisition and income-generating investment acquisitions.

## DEVELOPMENTS SUBSEQUENT TO March 31<sup>st</sup>, 2020

### Appointment of new Chief Operating Officer

Effective the 13<sup>th</sup> of April, Dr. Amin Omar resigned as COO of Innovotech, and, after many years of productive and valued service to the Company, has relocated to his homeland, the Kingdom of Jordan. We were pleased to announce the appointment of Dr. Tyler Boone as Chief Operating Officer of the Company to replace Dr. Omar.

Dr. Boone has been employed by Innovotech since mid 2017 when he was hired as a Microbiologist IV. He was appointed Laboratory Manager in December 2017. Dr. Boone obtained his undergraduate degree (BSc. Honors in Microbiology) in 2006 at the University of Alberta in the Department of Biological Sciences. He stayed to earn his PhD at the University of Alberta’s Faculty of Medical Sciences, following which, he accepted a Postdoctoral Fellowship at Loyola University in Chicago where he spent five years in laboratory work primarily in the study of spore formation. We expect the transition of the COO office to Dr. Boone will be seamless as he knows both our clients and our business well.

On April 22<sup>nd</sup>, Dr. Boone was granted incentive stock options on 100,000 shares at \$0.14 expiring April 22<sup>nd</sup>, 2026. Also on April 22<sup>nd</sup>, a new employee passed her provisional term of employment and was granted a stock option on 15,000 shares. On May 13<sup>th</sup>, 631,000 existing stock options were cancelled.

## SUMMARY OF QUARTERLY RESULTS

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Revenue	308,575	381,615	351,476	333,904	126,387	228,706	248,884	286,614
Cost of Sales	80,674	102,883	76,795	88,613	58,217	62,193	71,338	88,491
Gross profit	227,901	278,732	274,681	245,291	68,170	166,513	177,546	198,123
Expenses	207,747	272,309	181,463	123,317	183,468	210,925	160,847	203,154
Net income (loss)	22,235	6,423	93,218	121,974	(115,298)	(44,412)	15,200	(5,031)
Net income (loss) per share	\$0.00	\$0.00	\$0.00	\$0.00	(\$0.00)	(\$0.00)	\$0.00	(\$0.00)

E-mail: [info@innovotech.ca](mailto:info@innovotech.ca)

## **ABOUT CANBIOCIN INC.**

On February 19<sup>th</sup>, Innovotech closed its acquisition of 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<sup>®</sup>, a probiotic metabolite used to inhibit the growth of *Listeria monocytogenes* in processed meat products and that 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](http://www.canbiocin.ca).

## **ABOUT NOU LIFE SCIENCES**

The Nou Life patent rests on the linking of alpha lipoic acid and L-carnitine into one molecule. Lipoic acid and Carnitine are well known antioxidants that have applications in health care related to 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 they improve function in skin treatment sufficiently to encourage their use in nutraceutical and cosmetic applications. Innovotech will also investigate the indicated extent of the molecule's skin penetration in anticipation of a positive effect on nerve cell reinvigoration for treatment of neuropathy.

The Company has begun work to establish a linking of the molecules using a contract chemistry laboratory in Edmonton. The nature of the transaction enables the Company to tightly control the pace and extent of its investment in a manner that reduces the inherent risk in developing new technology,

## **CONTRACTUAL OBLIGATIONS**

Innovotech records long-term debt of \$20,000 on its March 31<sup>st</sup> balance sheet being the remainder payable of the Canada Emergency Business Account loan. The CEBA loan is non-interest-bearing until December 31<sup>st</sup>, 2022, before which time it is the Company's intention to repay it.

## **OUTSTANDING SHARE CAPITAL**

As at the date of this MD&A, there are 38,909,612 Class A common shares issued out of an unlimited number of Class A voting shares.

## **OUTSTANDING STOCK OPTIONS**

Consequent on the aforementioned issuance of 115,000 incentive stock options and the forfeiture of 631,000 of such options, there are as of the date of this MD&A, 1,670,000 incentive stock options outstanding.

E-mail: [info@innovotech.ca](mailto:info@innovotech.ca)

## GEOGRAPHIC SALES INFORMATION

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Canada	25,040	12,056
United States	233,140	86,374
Rest of World	50,394	27,957
	<u>308,574</u>	<u>126,387</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 while attempting to maximize return to shareholders by minimizing shareholder dilution in a manner consistent with maintaining adequate working capital, equipment, and facilities while maintaining optionality in the Company's 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 and expenses. As of March 31<sup>st</sup>, 2021, current assets were \$775,404, and current liabilities were \$162,004 providing a working capital balance of \$617,223.

E-mail: [info@innovotech.ca](mailto:info@innovotech.ca)

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, the Company has 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, 2020.

End