

Innovotech Inc.

Interim Financial Statements
(Unaudited)

**For the three and six-month periods ended
June 30, 2020 and 2019**

NOTICE OF NO AUDITOR REVIEW

Under National Instrument 51-102, part 4, subsection 4.3(3)(a); if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the entity's auditors.

Innovotech Inc.

Statements of Financial Position (Unaudited)

	June 30, 2020 \$	December 31, 2019 \$
Assets		
Current assets		
Cash and cash equivalents	198,482	96,671
Trade and other receivables	34,000	101,155
Inventory	45,981	21,531
Unbilled revenue	20,810	-
Prepaid expenses	8,582	5,468
	<u>307,855</u>	<u>224,825</u>
Equipment	<u>71,254</u>	<u>50,057</u>
	<u>379,109</u>	<u>274,882</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	64,555	73,977
Deferred revenue	62,041	2,818
	<u>126,596</u>	<u>76,795</u>
Due to shareholder	100,000	100,000
Term loan (note 5)	40,000	-
	<u>266,596</u>	<u>176,795</u>
Shareholders' Equity		
Share capital (note 4(a))	7,352,568	7,344,818
Contributed surplus	1,482,214	1,482,214
Deficit	(8,722,269)	(8,728,945)
	<u>112,513</u>	<u>98,087</u>
	<u>379,109</u>	<u>274,882</u>
Going Concern (note 1)		

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

Approved by the Board of Directors

(Signed) "Alan Savage" Director

(Signed) "James Timourian" Director

Innovotech Inc.

Statements of Changes in Shareholder's Deficiency (Unaudited)

	Share capital \$	Warrants \$	Shares to be issued \$	Contributed surplus \$	Deficit \$	Total \$
Balance – January 1, 2020	7,344,818	-	-	1,482,214	(8,728,945)	98,087
Net and comprehensive income for the period	-	-	-	-	6,676	6,676
Exercise of options (note 4(a))	7,750	-	-	-	-	7,750
Balance – June 30, 2020	<u>7,352,568</u>	-	-	1,482,214	(8,722,269)	112,513
Balance – January 1, 2019	7,344,818	-	-	1,428,836	(8,680,184)	93,470
Net and comprehensive loss for the period	-	-	-	-	(19,549)	(19,549)
Share based compensation	-	-	-	1,800	-	1,800
Balance – June 30, 2019	<u>7,344,818</u>	-	-	1,430,636	(8,699,733)	75,721

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

Innovotech Inc.

Statements of Operations and Comprehensive Loss (Unaudited) For the three and six months ended June, 2020 and 2019

	Three-month period ended		Six-month period ended	
	June 30, 2020 \$	June 30, 2019 \$	June 30, 2020 \$	June 30, 2019 \$
Revenue				
Contract research fees	291,881	220,776	360,797	370,224
Product sales	42,023	65,838	99,494	138,411
	<u>333,904</u>	<u>286,614</u>	<u>460,291</u>	<u>508,635</u>
Cost of sales				
Contract research	67,853	68,378	104,572	103,804
Product sales	20,760	20,113	42,258	53,777
	<u>88,613</u>	<u>88,491</u>	<u>146,830</u>	<u>157,581</u>
Gross profit	<u>245,291</u>	<u>198,123</u>	<u>313,461</u>	<u>351,054</u>
Operating expenses				
General and administrative	156,686	173,669	333,895	335,140
Bad debt expense	-	22,873	-	22,873
Sales and marketing	-	39	-	39
Research and development	4,164	7,446	12,830	11,923
Grants (note 6)	(37,533)	(2,373)	(40,940)	(2,373)
	<u>123,317</u>	<u>201,654</u>	<u>305,785</u>	<u>367,602</u>
Interest expense	-	(1,500)	(1,000)	(3,001)
Net income (loss) and comprehensive income (loss) for the period	<u>121,974</u>	<u>(5,031)</u>	<u>6,676</u>	<u>(19,549)</u>
Basic and diluted income (loss) per common share	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(0.00)</u>
Weighted average number of common shares outstanding for the period	<u>36,239,761</u>	<u>36,239,612</u>	<u>36,239,761</u>	<u>36,239,612</u>

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

Innovotech Inc.

Statements of Cash Flows

(Unaudited) For the six months ended June 30, 2020 and 2019

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	6,676	(19,549)
Adjustments for:		
Amortization	7,546	5,856
Loss on disposal of equipment	93	-
Non-cash interest expense	1,000	3,001
Share based compensation (note 4(b))	-	1,800
	<u>15,315</u>	<u>(8,892)</u>
Net change in non-cash working capital items (note 7)	<u>68,582</u>	<u>7,374</u>
	<u>83,897</u>	<u>(1,518)</u>
Investing activities		
Purchase of equipment	<u>(28,836)</u>	<u>(1,430)</u>
	<u>(28,836)</u>	<u>(1,430)</u>
Financing activities		
Term loan (note 5)	40,000	-
Exercise of options (note 4(a))	7,750	-
Interest paid	<u>(1,000)</u>	<u>(3,000)</u>
	<u>46,750</u>	<u>(3,000)</u>
Increase (decrease) in cash and cash equivalents	101,811	(5,948)
Cash and cash equivalents – Beginning of period	<u>96,671</u>	<u>28,808</u>
Cash and cash equivalents – End of period	<u>198,482</u>	<u>22,860</u>

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

Innovotech Inc.

Notes to Financial Statements

(Unaudited) June 30, 2020 and 2019

1 Nature of operations and use of the going concern assumption

Innovotech Inc. (the Company) is incorporated under the Business Corporation Act of Alberta. The primary activities of the Company are sales of its products, conducting contract research for outside customers and research and development to identify products for future commercialization. The Company's current products include a family of silver periodate antimicrobial compounds (InnovoSIL™) for medical application as well as an assay used in growing microbial biofilms for research purposes. The Company is publicly traded and listed on the TSX Venture Exchange, and its registered office is in Edmonton, Alberta.

These financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations for the foreseeable future.

Since inception, the Company has focussed on product research, development, and more recently on commercialization activities. These efforts have been sustained by issuing share capital, obtaining grants and other government assistance, and generating revenue from the Company's contract research business and sale of products. The Company realized a net income of \$6,676 (2019 – loss of \$19,549) and generated operating cash inflows of \$83,897 (2019 – outflows of \$1,518) for the six-month period ended June 30, 2020 and accumulated a deficit of \$8,722,269 at June 30, 2020 (2019 - \$8,699,733). The Company's planned level of expenditures for fiscal 2020 does not exceed its committed sources of funds. However, there is significant doubt about its ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management's current strategy is to focus on the contract research business and to exercise careful cost control to sustain operations in the near term. Management recognizes the Company's need to expand its cash reserves in the coming year if it intends to adhere to its research and development goals and has evaluated its potential sources of funds, including: increased revenue from contract research and sales of its products, additional grants to cover development expenditures, and possible equity financing options. Although management intends to assess and act on these options through the course of the year, there can be no assurance that the steps management takes will be successful.

In the event that cash flow from operations, together with the proceeds from any future financings are insufficient to cover planned expenditures, management will allocate available resources in such manner as deemed to be in the Company's best interest. This may result in a significant reduction in the scope of existing and planned operations.

These financial statements do not reflect any adjustments, which could be material, to the carrying amounts of assets and liabilities, reported revenues and expenses, and balance sheet classifications used, that would be necessary if the Company were unable to continue as a going concern.

2 Basis of preparation

The Company prepares its financial statements in accordance with Part I of the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook) which incorporates International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

These financial statements were approved by the Board of Directors for issue on August 11, 2020.

Innovotech Inc.

Notes to Financial Statements

(Unaudited) June 30, 2020 and 2019

3 Significant accounting policies

There are no new or amended International Financial Reporting standards or interpretations that required adoption by the Company during the quarter.

4 Share capital

a) Authorized

Unlimited number of Class A common, voting shares

Issued and outstanding

	<u>2020</u>		<u>2019</u>	
	<u>#</u>	<u>\$</u>	<u>#</u>	<u>\$</u>
Opening balance at January 1	36,239,612	7,344,818	36,239,612	7,344,818
Shares issued on option exercise	75,000	7,750	2,500,000	352,483
Closing balance	<u>36,314,612</u>	<u>7,352,568</u>	<u>36,239,612</u>	<u>7,344,818</u>

b) Stock options

The Company has an incentive stock option program (the Program) pursuant to which the Board of Directors of the Company may allocate non-transferable options to purchase common shares to directors, officers, employees and consultants of the Company. The aggregate number of common shares that may be available for issuance from time to time under the Program is not to exceed ten (10%) percent of the number of common shares issued and outstanding in the capital of the Company, calculated on a fully diluted basis. Options granted under the Program must have an exercise price not less than the market value of the common shares (less any permissible discount) at the grant date and vest over a period of one year or as otherwise resolved by the Board of Directors. These options are exercisable for a period of up to ten years from the date of grant, unless otherwise resolved by the Board of Directors. For purposes of the option pricing model, expected volatility is calculated based on the most recent historical period equal to the option's expected term.

The Company recognized share based compensation expense of \$nil for the six months ended June 30, 2020 (2019 – \$1,800).

Innovotech Inc.

Notes to Financial Statements

(Unaudited) June 30, 2020 and 2019

2019 transactions

On January 29, 2019, the Company granted to certain employees 36,000 stock options at an exercise price of \$0.05 with an expiry date of January 29, 2024. These stock options vests on January 29, 2020. The estimated fair value of these options is \$0.0696 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	243.73%
Risk-free interest rate	1.94%
Expected life of options	5 years

5 Term loan

The term loan was accessed through the Canada Emergency Business Account (“CEBA”). The funds are part of the Government of Canada’s support of corporations during the COVID-19 pandemic. The funds were used to fund non-deferable operating expenses during the quarter. The loan is non-interest bearing until December 31, 2022. Repaying the balance of the loan on or before December 31, 2022 will result in a loan forgiveness of \$10,000. Thereafter the loan will be converted into a three year term loan at an interest rate of 5% per annum.

6 Grants

Included in grants is \$37,533 the Company received from the Government of Canada. The amount was accessed under the Canada Emergency Wage Subsidy program (“CEWS”). The Company qualified for the subsidy due to a significant decrease in revenues experienced in March 2020 and April 2020.

7 Net change in non-cash working capital items

	2020	2019
	\$	\$
Trade and other receivables	67,155	29,552
Inventory	(24,450)	(4,786)
Unbilled revenue	(20,810)	-
Prepaid expenses	(3,114)	(5,471)
Accounts payable and accrued liabilities	(9,422)	(11,921)
Deferred revenue	59,223	-
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	68,582	7,374

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Notes to Financial Statements

(Unaudited) June 30, 2020 and 2019

8 Geographic information

Geographic information about the Company's revenue is based on the product shipment destination and, for contract research, on the location of the contracting organization.

	<u>Three-month period ended</u>		<u>Six-month period ended</u>	
	<u>June 30, 2020</u> \$	<u>June 30, 2019</u> \$	<u>June 30, 2020</u> \$	<u>June 30, 2019</u> \$
Canada	18,729	36,441	30,785	60,454
United States	287,933	218,795	374,307	374,374
Rest of world	27,242	31,380	55,199	73,807
	<u>333,904</u>	<u>286,616</u>	<u>460,291</u>	<u>508,635</u>

All of the Company's equipment and intangible assets are located in Canada.

9 Subsequent events

On July 14, 2020 the Company entered into an exclusive Collaboration Agreement with a major medical device company that will see our silver periodate compound, InnovoSIL™ -1, receive focused research targeted at advancing InnovoSIL™ -1 toward commercial applications in medical devices. During the term of the Agreement Innovotech will receive annual payments in return for the exclusive Collaboration Agreement.