



# Innovotech Inc.

## Management's Discussion and Analysis of Financial Conditions and Results of Operations for the nine months ended September 30, 2017

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# Innovotech Inc.

## Management's Discussion and Analysis of Financial Conditions and Results of Operations for the nine months ended September 30, 2017

*The following Management's Discussion and Analysis (MD&A) of results of operations and financial position as at November 03, 2017 should be read in conjunction with the unaudited financial statements of Innovotech Inc. (Innovotech or "the Company") for the nine-months ended June 30, 2017, and the related notes thereto.*

*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).*

## Forward Looking Statements

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; consequently, 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 and most recently filed AIF.

Should known 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.

## **Brief Summary**

Total revenue rose by 20% compared to the comparable 9-month period of 2016. New clients represented 20% of contract research revenue in the 3-month period ending September 30, 2017.

Negotiations with Agriculture Agri-Foods Canada (AAFC) over the terms of two repayable contributions were concluded. On September 7, 2017 the Company completed a debt settlement agreement with AAFC and paid the settlement amount of \$140,000.

US Patent number 9723843 for a "Family of Silver(1) Periodate Compounds Having Broad Microbial Properties" was issued on August 08, 2017.

Encouraging data from field trials has resulted in further requests for Innovotech proprietary antimicrobial material for testing.

## **About Innovotech**

Innovotech Inc. is a company based in Edmonton, Alberta that focuses on solving problems caused by microbial biofilms. It sells products that are used by researchers, performs contract research and is developing proprietary products. It is a public company that trades on the Toronto Venture Exchange under the symbol IOT.

Innovotech intends to build a growing business around its expertise in microbiology by providing the leadership, services and products that are in demand in a variety of industries.

## Overview of Business

Innovotech Inc. has the expertise to provide practical services and solutions for dealing with medical, agricultural and industrial problems caused by microbial biofilms.

Biofilms play a significant role in chronic infections and diseases in:

- Human health, such as hospital-acquired infections, diabetic ulcers, cystic fibrosis lung infections and medical device-related infections;
- Agriculture, such bacterial blight in pulse crops or microbial diseases affecting tomatoes or peppers
- Industry, such as microbial-induced corrosion of oil and gas pipelines;
- Food processing, in the design and maintenance of clean plants.

Check Innovotech's website [www.innovotech.ca](http://www.innovotech.ca) for background information on the impact of biofilm infections, particularly pages [http://www.innovotech.ca/research\\_science.php](http://www.innovotech.ca/research_science.php), <http://www.innovotech.ca/research.php>, and [http://www.innovotech.ca/research\\_publication.php](http://www.innovotech.ca/research_publication.php).

Innovotech's contract research specializes in solving biofilm issues and has a successful track record of assembling data packages for regulatory applications required by the US Food and Drug Administration (FDA) and other regulatory bodies for implant medical devices. The Company has applied its expertise to resolve many other biofilm issues, including, but not limited to, the areas of catheter and implant medical devices, dental treatments, water line antimicrobial agents, oil pipeline corrosion and food plant contamination.

In the quarter ending September 30, 2017 Innovotech's revenue from contract research was \$178,511, compared to \$167,697 in the same quarter of 2016. Revenue from new clients represented 20% of that total.

Innovotech produces and sells world-wide the MBEC Assay<sup>™</sup>, a high throughput biofilm growth device that was approved in 2012 as an ASTM International standard for testing hard surface disinfectant products that are submitted to regulatory agencies with anti-biofilm claims. This means that any hard surface disinfectant product claiming effectiveness against biofilms has to pass tests that are based on the Innovotech growth device.

In the quarter ending September 30, 2017 Innovotech's revenue from device sales was \$79,989 compared to \$88,883 in the same quarter of 2016.

Cost assigned to contract research revenue increased during the period primarily due to a single contract that was problematic and created unexpected expenses.

Innovotech has proprietary products that show potential in human, animal and agricultural applications.

InnovoSIL<sup>™</sup>-1 is a silver based antimicrobial compound that has the unique feature that it is not rapidly inactivated by chloride (salt) that is present in all body tissues.

On August 8, 2017 US patent #9723843 was issued covering the InnovoSIL™ family of Silver(1) Periodate Compounds Having Broad Microbial Properties, including InnovoSIL™-1 and AgreGuard™. The patent claims the ability to prevent, reduce, and treat microbial growth or contamination and describes treatment of infection in humans, pets, and livestock, disinfection of surfaces, and anti-biofilm as well as anti-planktonic (free floating) activity.

The patent claims the use of AgreGuard™ as an antimicrobial agent to coat plant surfaces (including leaves or seeds), thus providing protection for agricultural applications of interest.

There are other members of the InnovoSIL™ family that have different properties that may be suitable for applications in which InnovoSIL™-1 or AgreGuard™ do not excel. The patent also provides coverage for a variety of compounds in the family that replace some of the silver with other metals or hydrogen. This could allow Innovotech to generate additional products with tuned physical or chemical properties such as stability or solubility, or reduced costs.

Innovotech's Agress® and AgreGuard™ products have shown effectiveness against such diseases as Powdery Mildew on lettuce, White Mould on beans, Bacterial Spot on tomatoes and Fire Blight on apples. They are effective at low concentrations, are applied using conventional techniques in green houses and outdoors and can be environmentally more friendly than currently used products such as streptomycin. While Innovotech products are cost effective as seed treatments, they may be less cost effective as foliar sprays without more development, so such applications are not a present focus. Encouraging new data from field trials has resulted in requests for more material for testing.

Innovotech concluded a private placement in the nine-month period, the funds from which it intends to use for working capital. The Company has also granted warrants in connection with the private placement, the exercise of which must be formally approved by the shareholders at the next shareholders meeting.

## Outlook

Innovotech's immediate goals are to grow the market for its contract research service in human health, to expand that business to other industries, to expand the range of devices it supplies to research organizations, as well as exploit its proprietary technology.

The improvement in the financial stability of the Company along with new investment will help achieve these goals. The Company intends to build its sales and marketing effort to increase its revenues. Part of this effort consists of putting in place an audited internationally recognized quality control program that will allow the company to approach a wider group of clients. Investment in implementing the quality control program continued during the third quarter and will continue during the remainder of the year.

The outlook for proprietary products has not changed. Although Innovotech products are attractive they have not yet attracted the partners that will help commercialize them, and without such support Innovotech will focus its resources elsewhere. There were encouraging results from crop field trials that have led to more requests for material for testing.

Innovotech is also looking at other opportunities to build revenue and value.

Innovotech previously announced that negotiations with Agriculture and Agri-Food Canada regarding two repayable contributions were concluded during the period. On September 7, 2017 the Company completed a debt settlement agreement with AAFC and paid the settlement amount of \$140,000.

The debt settlement has removed a substantial burden and allows Innovotech to focus on its operations.

## EBITDAS

This non-GAAP measure is not defined under IFRS and may not be comparable to similar measures presented by other companies. For the Company, it is defined as earnings before interest, taxes, dividends, amortization and depreciation, and stock based compensation (EBITDAS). Management believes that EBITDAS as defined here is useful in providing investors with additional information to assist them in understanding the operational performance.

	(\$)	2017			2016			2015	
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net income (loss)		684,316	(26,356)	66,136	(137,468)	36,420	(68,843)	(45,644)	(50,073)
Net interest expense		4,910	10,339	10,857	261,238	16,763	17,522	20,365	19,215
Depreciation and Amortization		4,304	4,204	4,051	859	6,193	6,194	6,194	10,580
Stock based compensation		-	16,152	-	-	-	-	-	-
<b>EBITDAS</b>		<b>693,530</b>	<b>4,339</b>	<b>81,044</b>	<b>124,629</b>	<b>59,376</b>	<b>(45,127)</b>	<b>(19,085)</b>	<b>(20,278)</b>

## Summary of Quarterly Results

	(\$)	2017			2016			2015	
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Gross revenue</b>		258,500	208,696	328,060	342,291	257,580	206,387	199,340	163,248
<b>R&amp;D expense</b>		11,575	12,132	7,254	7,568	12,658	83,098	45,260	31,081
<b>Net income (loss)</b>		684,316	(26,356)	66,136	(130,468)	29,420	(68,843)	(45,644)	(50,073)
<b>Net income (loss) per share</b>		0.02	0.00	0.00	0.00	0.00	(0.00)	(0.00)	(0.00)

## Results of Operations

	<b>For nine-month period ending:</b>	<b>30/9/2017</b>	<b>30/9/2016</b>	<b>30/9/2015</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>
Net income (loss)		724,096	(78,067)	(200,532)
	<b>As at:</b>	<b>30/9/2017</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>
Total assets		316,715	325,270	213,602
Non-current liabilities		-	-	552,396
	<b>For nine-month period ending:</b>	<b>30/9/2017</b>	<b>30/9/2016</b>	
		<b>\$</b>	<b>\$</b>	
<b><u>Revenue</u></b>	Total, includes contract research and product revenue.	795,256	663,307	
Contract research revenue		549,100	415,960	
Product sales		246,156	247,347	
<b><u>General and Administrative Expense</u></b>	Including stock based compensation expense and allocated amortization expense. The increase is due to redeployment of personnel and non-recurring professional expenses related to debt settlement and due diligence on an acquisition the Company decided not to pursue.	524,370	338,123	
<b><u>Cost of Sales</u></b>	Total, includes direct labour, direct materials and allocated amortization.	246,362	198,303	
Cost of sales ,contract research		177,112	102,664	
Cost of sales, products		69,250	95,639	
<b><u>Amortization</u></b>	Proportionately allocated to general and administrative, cost of sales and research and development activities.	12,559	18,581	
Allocated G&A		2,105	3,480	
Allocated Cost of Sales		10,454	7,551	
Allocated R&D		-	7,550	
<b><u>Stock Based Compensation</u></b>		16,152	-	
<b><u>Forgiveness of debt</u></b>		(745,193)	-	

<b><u>Research and Development</u></b>	Including allocated amortization and patent costs.	30,961	141,016
<b><u>Scientific Research Tax Credits</u></b>	Repayment from Alberta Scientific Research and Experimental Development (SR&ED. The Company continued further research and development activity in 2017 and will be applying for the relevant tax credits in 2018	(11,711)	9,282

		<b>For nine-month period ending:</b>	
		<b>30/9/2017</b>	<b>30/9/2016</b>
		<b>\$</b>	<b>\$</b>
<b><u>Net interest expense</u></b>	The net interest expense is comprised of interest paid on amounts due to shareholders and accrued interest on the repayable contributions.	26,106	54,650

		<b>As at:</b>	
		<b>30/9/2017</b>	<b>31/12/2016</b>
		<b>\$</b>	<b>\$</b>
<b><u>Repayable contributions payments</u></b>	In November 2016, AAFC (Agriculture and Agri-Food Canada) informed the Company that they were exercising their right to demand payment in full, as the Company had defaulted on the payment due in 2016. On September 7, 2017 the Company completed a debt settlement agreement with AAFC and paid the settlement amount of \$140,000.	-	866,151

<b><u>Liquidity and Capital Resources</u></b>	Total cash.	89,316	33,169
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The Company realized a net income for the nine months ended September 30, 2017 reducing the accumulated losses since the Company's inception. Even so, there is still significant doubt about the Company's ability to continue as a going concern. See Note 1 to the December 31, 2016 financial statements for additional information regarding this issue.

The Company intends to manage its liquidity risk through a combination of activities in the immediate future. These include:

- 1) Expanding the revenue from its contract research business
- 2) Gaining revenue from the sale of products it has developed
- 3) Receiving revenue from the licensing of proprietary products or technology
- 4) Receiving grants to offset product development costs
- 5) Controlling operating expenses as much as possible
- 6) Suspending research and development projects that are not close to contributing to near term revenue
- 7) Postponement or waiver of compensation by officers
- 8) Private financings

If cash flow from operations is 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 reduction in the scope of existing and planned operations

		<b>For nine-month period ending:</b>	<b>30/9/2017</b>	<b>30/9/2016</b>
			<b>\$</b>	<b>\$</b>
<b><u>Financing Activities</u></b>	In the nine months ended September 30, 2017 payments were made on shareholder loans. In the nine months ended September 30, 2016 shareholders advanced loans to the Company.		(56,000)	25,377
<b><u>Investing Activities</u></b>	In the nine months ended September 30, 2017, the Company invested in capital assets. The Company continues to ensure that capital assets are allocated to support essential development projects.		9,762	-
	In the nine months ended September 30, 2017, the Company received proceeds from the disposal of capital assets.		2,094	3,500

		<b>As at:</b>	<b>30/9/2017</b>
<b><u>Outstanding Share Capital</u></b>			
Common shares	Outstanding		33,739,612
Outstanding options	Maximum number of stock options to purchase common shares		1,648,000
Warrants	Outstanding		2,500,000

		<b>For nine-month period ending:</b>	<b>30/9/2017</b>	<b>30/9/2016</b>
			<b>\$</b>	<b>\$</b>
<b><u>Related Party Transactions</u></b>	Certain related parties provide administrative and professional services to the Company either directly or through companies that they control. These services are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The Company also incurred interest on shareholder loans advanced to the Company by related parties.		129,354	72,405

<b>Name</b>	<b>Relationship</b>	<b>Purpose</b>	<b>30/9/2017</b>	<b>30/9/2016</b>
Bruce Hirsche,	Corporate Secretary and	Professional Fees	55,777	6,023
Parlee McLaws LLP <sup>1</sup>	Legal Counsel, Director	Interest expense	366	938
Bernard Grobbelaar <sup>2</sup>	Chief Financial Officer,	Professional Fees	62,543	62,175
	Director	Interest expense	38	313
Dr. Gerard Tertzakian	Director	Interest expense	753	1,250
Dr. James Timourian <sup>3</sup>	Chief Executive Officer,	Professional Fees	9,000	-
	President	Interest expense	125	456
Dr. Wolfgang Muhs	Director	Interest expense	753	1,250

1 Parlee McLaws LLP is the Company's corporate counsel. Mr. Bruce Hirsche is a partner at Parlee McLaws LLP and is the legal counsel to the Company in this capacity. Mr. Hirsche as Corporate Secretary is also an Officer of Innovotech.

2 Bernard Grobbelaar Professional Corporation and Oikonomos Management Ltd. are owned by Bernard Grobbelaar. Mr. Bernard Grobbelaar provides services as Chief Financial Officer as well as providing accounting personnel performing all internal accounting and payroll functions for Innovotech Ltd. through Oikonomos Management Ltd.

3 Dr. James Timourian provides his services as President on a contract basis through Sassoun Investments Ltd.

## Changes in accounting policies

The Company has not adopted any new or revised standards during the three months ended March 31, 2017.

## Controls and Procedures

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that:

(i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and that

(ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), the Company utilizes the Venture Issuer Basic Certificate, which does not include representations relating to the establishment and maintenance of Disclosure Controls and Procedures ("DC&P") and Internal Controls over Financial Reporting ("ICFR"), as defined in NI 52-109.

In particular, the certifying officers filing Venture Issuer Basic Certificate are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of the Company to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## Additional information

Additional information relating to Innovotech Inc. including its December 31, 2016 Audited Annual Financial Statements, is available on [www.sedar.com](http://www.sedar.com).

## Corporate Information

### Head Office

Suite 101  
2011-94 Street  
Edmonton,  
AB T6N 1H1 Canada

### Telephone

(780) 448-0585

### Fax

(780) 424-0941

### Email

[info@innovotech.ca](mailto:info@innovotech.ca)

### Registrar and Transfer Agent

Computershare Trust Company of  
Canada  
530 8<sup>th</sup> Avenue  
Calgary,  
AB T2P 3S8 Canada

### Stock Listing

TSX Venture Exchange  
Trading symbol IOT

### Solicitors

Parlee McLaws LLC  
Edmonton, Alberta

### Banks

Canadian Imperial Bank of Commerce  
Edmonton, Alberta

## Website

www.innovotech.ca

## Auditors

PricewaterhouseCoopers  
Edmonton, Alberta

## Stock Listing

TSX Venture Exchange  
Trading symbol IOT

## Board of Directors

Mr. Tom Christensen, CA, Edmonton, Alberta  
MPACC

Mr. Bernard Grobbelaar, CPA, St. Albert, Alberta  
CA

Mr. Bruce Hirsche, Q.C., Edmonton, Alberta  
LL.M,

Dr. Wolfgang Muhs Peachland, BC

Mr. Alan C. Savage Vancouver, BC

Dr. Gerard Tertzakian Edmonton, Alberta

Dr. James Timourian Edmonton, Alberta

## Officers

Dr. James Timourian  
Chairman of the Board,  
President

Mr. Bernard Grobbelaar  
Chief Financial Officer

Mr. Bruce Hirsche  
Secretary