

# **Innovotech Inc.**

Interim Financial Statements  
(Unaudited)

**For the three and nine-month periods  
ended  
September 30, 2018 and 2017**

#### 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)

	September 30, 2018 \$	December 31, 2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	39,919	324,522
Trade and other receivables	150,400	87,799
Inventory	35,489	38,725
Prepaid expenses	19,241	7,967
	<u>245,049</u>	<u>459,013</u>
<b>Equipment</b>	<u>64,936</u>	<u>68,252</u>
	<u>309,985</u>	<u>527,265</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 5)	205,531	240,757
Deferred revenue	32,296	-
Due to shareholder (note 9)	16,000	105,000
	<u>253,827</u>	<u>345,757</u>
<b>Shareholders' Deficiency</b>		
<b>Share capital</b> (note 4(a))	7,344,818	6,992,335
<b>Shares to be issued</b>	-	352,483
<b>Contributed surplus</b>	1,423,369	1,389,240
<b>Deficit</b>	<u>(8,712,029)</u>	<u>(8,552,550)</u>
	<u>56,158</u>	<u>181,508</u>
	<u>309,985</u>	<u>527,265</u>
<b>Going Concern</b> (note 1)		

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

**Approved by the Board of Directors**

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(Signed) "Alan Savage" Director

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(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 \$
<b>Balance – January 1, 2018</b>	6,992,335	-	352,483	1,389,240	(8,552,550)	181,508
Net and comprehensive loss for the period	-	-	-	-	(159,479)	(159,479)
Shares issued	352,483	-	(352,483)	-	-	-
Employee share options (note 4(b)) Value of services recognized	-	-	-	34,129	-	34,129
<b>Balance – September 30, 2018</b>	<b>7,344,818</b>	<b>-</b>	<b>-</b>	<b>1,423,369</b>	<b>(8,712,029)</b>	<b>56,158</b>
<b>Balance – January 1, 2017</b>	6,714,372	-	-	1,373,088	(9,305,935)	(1,218,475)
Net and comprehensive loss for the period	-	-	-	-	724,098	724,098
Shares and warrants issued on private placement (note 4(a))	277,963	102,483	-	-	-	380,446
Employee share options Value of services recognized	-	-	-	16,152	-	16,152
<b>Balance – September 30, 2017</b>	<b>6,992,335</b>	<b>102,483</b>	<b>-</b>	<b>1,389,240</b>	<b>(8,581,837)</b>	<b>(97,779)</b>

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

# Innovotech Inc.

## Statements of Operations and Comprehensive Loss

(Unaudited) For the three and nine months ended September, 2018 and 2017

	Three-month period ended		Nine-month period ended	
	September 30, 2018 \$	September 30, 2017 \$	September 30, 2018 \$	September 30, 2017 \$
<b>Revenue</b>				
Contract research fees	177,450	178,511	448,475	549,100
Product sales	39,086	79,989	178,845	246,156
	<u>216,536</u>	<u>258,500</u>	<u>627,320</u>	<u>795,256</u>
<b>Cost of sales</b>				
Contract research	30,358	76,809	89,690	177,112
Product sales	13,974	34,517	72,987	69,250
	<u>44,332</u>	<u>111,326</u>	<u>162,677</u>	<u>246,362</u>
<b>Gross profit</b>	<u>172,204</u>	<u>147,174</u>	<u>464,643</u>	<u>548,894</u>
<b>Operating expenses</b>				
General and administrative	166,498	191,299	554,935	524,368
Sales and marketing	150	255	235	265
Research and development	22,341	11,575	72,258	30,961
Scientific research tax credits	-	-	(3,303)	(11,711)
	<u>188,989</u>	<u>203,139</u>	<u>624,125</u>	<u>543,883</u>
Interest expense	-	(4,910)	-	(26,149)
Interest income	3	-	3	43
Forgiveness of debt	-	745,193	-	745,193
	<u>3</u>	<u>740,283</u>	<u>3</u>	<u>719,087</u>
<b>Net interest expense</b>	<u>3</u>	<u>740,283</u>	<u>3</u>	<u>719,087</u>
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<u>(16,782)</u>	<u>684,318</u>	<u>(159,479)</u>	<u>724,098</u>
<b>Basic and diluted income (loss) per common share</b>	<u>(0.00)</u>	<u>0.02</u>	<u>(0.00)</u>	<u>0.02</u>
<b>Weighted average number of common shares outstanding for the period</b>	<u>36,239,612</u>	<u>33,739,612</u>	<u>34,563,788</u>	<u>31,486,865</u>

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

# Innovotech Inc.

## Statements of Cash Flows

(Unaudited) For the nine months ended September 30, 2018 and 2017

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	2018 \$	2017 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net profit (loss) for the period	(159,479)	724,098
Adjustments for:		
Amortization	11,337	12,559
Loss on disposal of equipment	1,297	(1,158)
Non-cash interest expense	-	26,149
Forgiveness of debt	-	745,193
Stock-based compensation	34,129	16,152
	<u>(112,716)</u>	<u>32,607</u>
Net change in non-cash working capital items (note 6)	<u>(73,569)</u>	<u>(146,131)</u>
	<u>(186,285)</u>	<u>(113,524)</u>
<b>Investing activities</b>		
Purchase of equipment	(9,318)	(9,762)
Proceeds from disposal of equipment	-	2,094
	<u>(9,318)</u>	<u>(7,668)</u>
<b>Financing activities</b>		
Issuance of shares and warrants net of issuance costs (note 4(a))		380,446
Due to shareholders	(89,000)	(56,000)
Interest paid	-	(7,107)
Repayable contributions (note 7)	-	(140,000)
	<u>(89,000)</u>	<u>177,339</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(284,603)</b>	<b>56,147</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>324,522</b>	<b>33,169</b>
<b>Cash and cash equivalents – End of period</b>	<b>39,919</b>	<b>89,316</b>
Cash and cash equivalents comprise cash on deposit	39,919	89,316

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

# Innovotech Inc.

## Notes to Financial Statements

(Unaudited) September 30, 2018 and 2017

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### 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 human and veterinary biofilm susceptibility tests, a seed treatment designed to combat both bacterial and fungal diseases, and an assay used in growing microbial biofilms for research purposes. In addition the Company has a patented silver based highly effective antimicrobial compound, InnovoSIL™ -1, that has the unique feature that it is not rapidly inactivated by chloride (salt) that is present in all body tissues.

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 loss of \$159,479 (2017 – net profit of \$724,098) and generated operating cash outflows of \$186,285 (2017 – \$113,526) for the nine month period ended September 30, 2018, and accumulated a deficit of \$8,712,029 at September 30, 2018 (2017 – \$8,581,837). The Company's planned level of expenditures for fiscal 2018 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 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).

# Innovotech Inc.

## Notes to Financial Statements

(Unaudited) September 30, 2018 and 2017

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These financial statements were approved by the Board of Directors for issue on November 13, 2018.

### 3 Significant accounting policies

#### New and amended standards adopted

- a) IFRS 9 replaces the provisions of IAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company adopted the standard on January 1, 2018, with the only impact being with respect to revising the Company's impairment methodology for its trade and other receivables.

The Company applies the practical expedient approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. The adoption of this standard has not had a material impact on the condensed interim financial statements.

- b) IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The Company adopted IFRS 15 Revenue from contracts with customers, effective January 1, 2018. The Company considered factors such as customer contracts with unique revenue recognition considerations, the nature and type of goods and services offered, the degree to which contracts include multiple performance obligations or variable consideration, and the pattern in which revenue is currently recognized, among other things.

The adoption of IFRS 15 resulted in certain procedural changes in accounting for revenue, however accounting policies and the timing of revenue recognition for all revenue streams remains the same.

#### New standards not yet adopted

- c) IFRS 16, Leases establishes a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach to lessor accounting in IFRS 16 substantially unchanged from the predecessor standards IAS 17 Leases. The standard replaces IAS 17 Leases and related interpretations.

This standard is required to be applied for accounting periods beginning on or after January 1, 2019, with earlier adoption permitted.

The Company is currently assessing the impact of adopting the above standard on the financial statements. There are no other standards, amendments or interpretations to existing standards issued but not yet effective that are expected to have a material impact on the Company.

### 4 Share capital

- a) Shares to be issued

In December 2017, the warrant holder exercised 2,500,000 of the warrants and the Company received \$250,000. The common shares were issued in April 2018.

# Innovotech Inc.

## Notes to Financial Statements

(Unaudited) September 30, 2018 and 2017

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### 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 as 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 stock based compensation expense of \$34,129 for the six months ended June 30, 2018 (2017 – \$16,152).

### 2018 transactions

On February 16, 2018, the Company granted to certain directors and employees 285,000 stock options at an exercise price of \$0.11. These stock options vest immediately. The estimated fair value of these options is \$0.1198 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	191.68%
Risk-free interest rate	2.31%
Expected life of options	10 years

### 2017 transactions

On April 10, 2017, the Company granted to certain directors and employees 325,000 stock options at an exercise price of \$0.05. These stock options vest immediately. The estimated fair value of these options is \$0.0497 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	171.90%
Risk-free interest rate	1.60%
Expected life of options	10 years

# Innovotech Inc.

Notes to Financial Statements

(Unaudited) September 30, 2018 and 2017

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## 5 Net change in non-cash working capital items

	<b>2018</b>	<b>2017</b>
	\$	\$
Trade and other receivable	(62,601)	65,421
Inventory	3,236	2,074
Prepaid expenses	(11,274)	(6,526)
Accounts payable and accrued liabilities	(35,226)	(206,085)
Deferred revenue	32,296	(1,015)
	<u>(73,569)</u>	<u>(146,131)</u>

## 6 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>Nine-month period ended</u>	
	<b>September</b>	<b>September</b>	<b>September</b>	<b>September</b>
	<b>30, 2018</b>	<b>30, 2017</b>	<b>30, 2018</b>	<b>30, 2017</b>
	\$	\$	\$	\$
Canada	13,337	4,537	44,347	11,651
United States	180,914	170,117	477,027	553,119
Rest of world	22,285	83,846	105,946	230,486
	<u>216,536</u>	<u>258,500</u>	<u>627,320</u>	<u>795,256</u>

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