



Innovotech Inc.

Management's Discussion and Analysis of Financial Conditions and Results of Operations for the nine-months ended September 30, 2018

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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, 2018

The following Management's Discussion and Analysis (MD&A) of results of operations and financial position as at November 13, 2018 should be read in conjunction with the audited financial statements of Innovotech Inc. (Innovotech or "the Company") for the year ended December 31, 2017 and the related notes thereto.

The information in this MD&A is based on unaudited interim financial statements of the Company that have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the interim 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.

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.

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

In the third quarter of 2018 revenue targets were met. At the same time expenses were cut, which bodes well for financial results in the fourth and subsequent quarters.

At least 18% of the contract research revenue came from new clients in the third quarter of 2018.

The submission for accreditation under the widely recognized international quality system ISO 17025 was completed in the third quarter and the subsequent audit has been scheduled in November. Achievement of this accreditation will aid future marketing efforts.

Tests were completed on formulations using InnovoSIL™-1 for an anti-microbial gel during the period and discussions were initiated with an outside party interested in commercializing the product outside of North America and Europe.

Significant cost cutting was achieved that will have an impact on the financial results for the year end and beyond.

Innovotech established a line of credit with shareholder Lonsdale Capital Corporation subsequent to the close of the period.

Mr. Tom Christensen resigned as a member of the Board of Directors in Q2 and Mr. David Tam joined the Board on August 13, 2018. Mr. Alan Savage has succeeded Mr. Bernard Grobbelaar as CFO. Mr. Grobbelaar continues to remain a Director.

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

Please view Innovotech's website 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.php>, and 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, 2018, Innovotech's revenue from contract research was \$177,450 compared to \$178,511 in the comparable quarter of 2017.

Innovotech produces and sells world-wide the MBEC AssayTM, a high throughput biofilm growth device that was approved 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, 2018 Innovotech's revenue from device sales was \$39,086 compared to \$79,989 in the comparable quarter in 2017.

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

InnovoSIL™-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.

In 2017 Innovotech was issued US patent #9723843 covering the InnovoSIL™ family of Silver(1) Periodate Compounds Having Broad Anti-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 friendlier than currently used products such as streptomycin.

During the quarter ending September 30, 2018 Innovotech spent \$22,341 on R&D compared to \$11,575 in the comparable quarter in 2017. This development spending was in response to increased interest in the Company's proprietary compounds in both human health and agriculture. The Company has achieved its R&D goals of settling on a gel formulation that has passed the necessary short term stability testing needed for a commercial antimicrobial product. No new R&D work is planned without sale or licensing of the products to outside parties interested in financing the next steps required to demonstrate efficacy and meet government regulations.

During the quarter ending September 30, 2018 Innovotech entered into discussions with a third party regarding potential commercialization of the InnovoSIL gel.

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 Company is increasing its sales and marketing efforts to build its revenues. Part of this effort comes from building a management team that allows for more direct marketing by senior scientists. Another part of this effort consists of putting in place an audited internationally recognized quality control program (ISO 17025) that will allow the Company to support our existing clients and to approach a wider group of clients. A submission was completed in the third quarter and an audit is scheduled in November. The Company will seek to exploit the attainment of this quality standard to increase its number of clients as well as its revenue.

The Company is working with a third party interested in commercializing its proprietary anti-microbial gel in human health and the outlook is that decisions will be made in the last quarter of 2018 or the first quarter of 2019.

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

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.

	2018				2017			2016	
(\$)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Net income (loss)	(16,782)	(66,170)	(76,526)	29,289	684,316	(26,356)	66,136	(137,468)	
Net interest expense	-	-	-	1,723	4,910	10,339	10,857	261,238	
Depreciation and Amortization	4,477	3,802	3,098	4,268	4,304	4,204	4,051	859	
Stock based compensation	-	-	34,129	-	-	16,152	-	-	
EBITDAS	(12,305)	(62,368)	(39,299)	35,280	693,530	4,339	81,044	124,629	

Summary of Quarterly Results

	(\$)	2018				2017			2016
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gross revenue		216,536	194,988	215,796	195,087	258,500	208,696	328,060	342,291
R&D expense		22,341	32,371	17,546	36,536	11,575	12,132	7,254	7,568
Net income (loss)		(16,782)	(66,170)	(76,526)	29,289	684,316	(26,356)	66,136	(130,468)
Net income (loss) per share		(0.00)	(0.00)	(0.00)	0.00	0.02	(0.00)	0.00	(0.00)
Diluted net income (loss) per share		(0.00)	(0.00)	(0.00)	0.00	0.02	(0.00)	0.00	(0.00)

Results of Operations

	For 9-month period ending:		
	30/9/2018	30/9/2017	30/9/2016
	\$	\$	\$
Net income (loss)	(159,479)	724,098	(78,067)
Net income (loss) per share			
- Basic	(0.00)	0.02	(0.00)
- Diluted	(0.00)	0.02	(0.00)
	As at:		
	30/9/2018	31/12/2017	31/12/2016
	\$	\$	\$
Total assets	309,985	527,265	325,270

	For nine-month period ending:	
	30/9/2018	30/9/2017
	\$	\$
<u>Revenue</u>	Total, includes contract research and product revenue.	
		627,320
Contract research revenue		795,256
Product sales		448,475
		178,845
<u>General and Administrative Expense</u>	Total includes labour and allocated amortization.	
		554,935
		524,368
<u>Cost of Sales</u>	Total, includes direct labour, direct materials and allocated amortization.	
		162,677
Cost of Sales, contract research		246,362
Cost of Sales, products		99,690
		72,987
		69,250

<u>Amortization</u>	Proportionately allocated to general and administrative, cost of sales and research and development activities.	11,336	12,559
Allocated G&A		1,870	2,105
Allocated Cost of Sales		9,466	10,454
<u>Stock Based Compensation</u>		34,129	16,152
<u>Research and Development</u>	Including allocated amortization and patent costs.	72,258	30,961
<u>Scientific Research Tax Credits</u>	The Company continued further research and development activity in 2018 and will be applying for the relevant tax credits in 2019	(3,303)	(11,711)

		For three-month period ending:	
		30/9/2018	30/9/2017
		\$	\$
<u>Net interest expense</u>	The net interest expense is comprised of interest paid on amounts due to shareholders and accrued interest on the repayable contributions.	3	740,283

		As at:	
		30/9/2018	31/12/2017
		\$	\$
<u>Liquidity and Capital Resources</u>	Total cash.	39,919	324,522

The Company realized a net loss for the three months ended June 30, 2018, increasing the accumulated losses since the Company's inception. There remains a significant doubt about the Company's ability to continue as a going concern. See Note 1 to the December 31, 2017 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) Reducing operating expenses
- 6) Suspending research and development projects
- 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

		For nine-month period ending:	30/9/2018	30/9/2017
			\$	\$
<u>Financing Activities</u>	In the nine-month period ended June 30, 2018 payments were made on shareholder loans.		(105,000)	(41,000)
<u>Investing Activities</u>	In the nine-month period ended June 30, 2018, the Company invest in capital assets. The Company continues to ensure that capital assets are allocated to support essential development projects.		9,318	9,762

		As at:	13/11/2018
<u>Outstanding Share Capital</u>			
Common shares	Outstanding		36,239,612
Outstanding options	Maximum number of stock options to purchase common shares		1,933,000

Changes in accounting policies

New and amended standards adopted

- 1) 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.

- 2) 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

- 1) IFRS 16, Leases deals with 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 standards 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.

Significant estimates and judgments

The preparation of 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. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements:

- 1) Impairment of non-financial assets
Non-financial assets, including equipment and intangible assets, 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 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.
- 2) Fair value of stock options and warrants
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 stock based compensation charged to operations.

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, 2017 Audited Annual Financial Statements, is available on www.sedar.com.

Corporate Information

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Mr. Bernard Grobbelaar, CPA, CA	St. Albert, Alberta
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, Secretary
Mr. Alan Savage
Chief Financial Officer

Registrar and Transfer Agent

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Stock Listing

TSX Venture Exchange
Trading symbol IOT

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