

# **Innovotech Inc.**

Interim Financial Statements

(Unaudited)

**For the three and nine-month periods ended  
September 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)

	September 30, 2020 \$	December 31, 2019 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	661,231	96,671
Trade and other receivables	75,167	101,155
Inventory	43,404	21,531
Prepaid expenses	24,248	5,468
	<u>804,050</u>	<u>224,825</u>
<b>Equipment</b>	<u>74,057</u>	<u>50,057</u>
	<u>878,107</u>	<u>274,882</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	125,192	73,977
Deferred revenue	36,812	2,818
	<u>162,004</u>	<u>76,795</u>
<b>Due to shareholder</b> (note 4)	100,000	100,000
<b>Term loan</b> (note 5)	40,000	-
	<u>302,004</u>	<u>176,795</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 6(a))	7,563,397	7,344,818
<b>Warrants</b> (note 6(a))	159,543	-
<b>Contributed surplus</b>	1,482,214	1,482,214
<b>Deficit</b>	(8,649,213)	(8,728,945)
	<u>576,103</u>	<u>98,087</u>
	<u>878,107</u>	<u>274,882</u>
<b>Nature of operations</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, 2020</b>	7,344,818	-	-	1,482,214	(8,728,945)	98,087
Net and comprehensive loss for the period	-	-	-	-	99,894	99,894
Shares and warrants issued on private placement (note 6(a))	206,579	159,543	-	-	-	366,122
Exercise of options (note 6(a))	12,000	-	-	-	-	12,000
<b>Balance – September 30, 2020</b>	<b>7,563,397</b>	<b>159,543</b>	<b>-</b>	<b>1,482,214</b>	<b>(8,629,051)</b>	<b>576,103</b>
<b>Balance – January 1, 2019</b>	7,344,818	-	-	1,428,836	(8,680,184)	93,470
Net and comprehensive loss for the period	-	-	-	-	(4,349)	(4,349)
Share based compensation (note 6(b))	-	-	-	5,771	-	5,771
<b>Balance – September 30, 2019</b>	<b>7,344,818</b>	<b>-</b>	<b>-</b>	<b>1,434,607</b>	<b>(8,684,533)</b>	<b>94,892</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, 2020 and 2019

	Three-month period ended		Nine-month period ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
<b>Revenue</b>				
Contract research fees	274,173	160,667	634,970	530,891
Product sales	68,471	88,217	167,965	226,628
Other revenue	8,832	-	8,832	-
	<u>351,476</u>	<u>248,884</u>	<u>811,767</u>	<u>757,519</u>
<b>Cost of sales</b>				
Contract research	41,883	28,485	146,455	132,289
Product sales	34,912	42,853	77,170	96,630
	<u>76,795</u>	<u>71,338</u>	<u>223,625</u>	<u>228,919</u>
<b>Gross profit</b>	<u>274,681</u>	<u>177,546</u>	<u>588,142</u>	<u>528,600</u>
<b>Operating expenses</b>				
General and administrative	156,034	167,087	489,929	502,227
Bad debt expense	-	-	-	22,873
Sales and marketing	-	-	-	39
Research and development	23,929	4,140	36,759	16,063
Grants (note 7)	-	(10,380)	(40,940)	(12,753)
	<u>179,963</u>	<u>160,847</u>	<u>485,748</u>	<u>528,449</u>
Interest expense	<u>(1,500)</u>	<u>(1,499)</u>	<u>(2,500)</u>	<u>(4,500)</u>
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<u>93,218</u>	<u>15,200</u>	<u>99,894</u>	<u>(4,349)</u>
<b>Basic and diluted income (loss) per common share</b>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(0.00)</u>
<b>Weighted average number of common shares outstanding for the period</b>	<u>36,485,287</u>	<u>36,239,612</u>	<u>36,485,287</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 nine months ended September 30, 2020 and 2019

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	2020 \$	2019 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net profit (loss) for the period	99,894	(4,349)
Adjustments for:		
Amortization	12,252	9,385
Loss on disposal of equipment	93	-
Non-cash interest expense	2,500	4,500
Stock-based compensation (note 6(b))	-	5,771
	<u>114,739</u>	<u>15,307</u>
Net change in non-cash working capital items (note 8)	<u>70,544</u>	<u>51,264</u>
	<u>185,283</u>	<u>66,571</u>
<b>Investing activities</b>		
Purchase of equipment	<u>(36,345)</u>	<u>(2,438)</u>
	<u>(36,345)</u>	<u>(2,438)</u>
<b>Financing activities</b>		
Issuance of shares and warrants (note 6(a))	375,000	-
Share issuance cost (note 6(a))	(8,878)	-
Exercise of options (note 6(a))	12,000	-
Term loan (note 5)	40,000	-
Interest paid (note 4)	<u>(2,500)</u>	<u>(4,500)</u>
	<u>415,622</u>	<u>(4,500)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>564,560</u>	<u>59,633</u>
<b>Cash and cash equivalents – Beginning of period</b>	<u>96,671</u>	<u>28,808</u>
<b>Cash and cash equivalents – End of period</b>	<u>661,231</u>	<u>88,441</u>

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

# Innovotech Inc.

## Notes to Financial Statements

(Unaudited) September 30, 2020 and 2019

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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 product is 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.

### 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 November 12, 2020.

### 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 Due to shareholder

The amount due to a shareholder of the Company consists of a \$100,000 line of credit which was repayable on demand and bears interest at 6% per annum. On July 15, 2019 the repayment terms were amended from being payable on demand to a stated repayment date on or after October 22, 2022. The amount has therefore been classified as a non-current liability. In response to the COVID-19 pandemic, the shareholder agreed to waive the interest payment for four months. On October 30, 2020 the Company repaid the outstanding balance on the line of credit.

### 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. Subsequent September 30, 2020 the Company repaid \$10,000 of the term loan.

# Innovotech Inc.

## Notes to Financial Statements

(Unaudited) September 30, 2020 and 2019

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### 6 Share capital

#### a) Authorized

Unlimited number of Class A common, voting shares

Issued and outstanding

	2020		2019	
	#	\$	#	\$
Opening balance at January 1	36,239,612	7,344,818	36,239,612	7,344,818
Shares issued on option exercise	160,000	12,000	-	-
Shares issued in private placement	1,875,000	206,579	-	-
Closing balance	38,274,612	7,563,397	36,239,612	7,344,818

The Company completed a private placement on September 2, 2020 under which 1,875,000 Units were issued at a price of \$0.20 per Unit for gross proceeds of \$375,000. Each Unit is comprised of one (1) common share and one half (1/2) common share purchase warrant. Each full warrant entitles the holder to purchase one (1) additional common share at a price of \$0.25 per common share for a period of three (3) years following the date of closing. Issuance cost of \$8,878 resulted in net proceeds of \$366,122 of which \$159,543 were attributed to warrants.

#### 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 \$nil for the nine months ended September 30, 2020 (2019 – \$5,771).

#### 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 vest 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:

# Innovotech Inc.

## Notes to Financial Statements

(Unaudited) September 30, 2020 and 2019

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

On August 20, 2019, the Company granted to a director 50,000 stock options at an exercise price of \$0.08 with an expiry date of August 19, 2024. These stock options vest immediately. The estimated fair value of these options is \$0.0794 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	238.97%
Risk-free interest rate	1.16%
Expected life of options	5 years

### 7 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.

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

	2020 \$	
Trade and other receivable	25,988	52,755
Inventory	(21,873)	2,852
Prepaid expenses	(18,780)	(5,594)
Accounts payable and accrued liabilities	51,215	1,251
Deferred revenue	33,994	-
	<u>70,544</u>	<u>51,264</u>

### 9 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.

	Three-month period ended		Nine-month period ended	
	September 30, 2020 \$	September 30, 2019 \$	September 30, 2020 \$	September 30, 2019 \$
Canada	2,325	20,736	33,110	81,190
United States	320,577	157,519	694,884	531,893
Rest of world	28,574	70,629	83,773	144,436
	<u>351,476</u>	<u>248,884</u>	<u>811,767</u>	<u>757,519</u>

# Innovotech Inc.

## Notes to Financial Statements

(Unaudited) September 30, 2020 and 2019

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

### 10 Subsequent events

On October 16, 2020, the Company agreed to acquire a debenture in a private corporation with a face value of \$150,000, bearing interest at 8% per annum. The debenture is convertible into 120,000 common shares of the private corporation. The purchase price will be paid by issuing 625,000 common shares at a deemed value of \$0.24 per share, the closing price on the TSX-V on October 15, 2020. The debenture is proposed to be acquired from a significant shareholder of both the Company and the private corporation. The transaction is subject to regulatory approval, and subject to the related party exemptions contained in Multilateral Instrument 61-101.