

## INNOVOTECH INC

### MANAGEMENT'S DISCUSSION & ANALYSIS:

Financial Condition and Results of Operations for the three and nine-month Periods Ended September 30<sup>th</sup>, 2021 (As of November 16<sup>th</sup>, 2021)

*The following Management Discussion and Analysis (MD&A) of results of operations and financial position as of September 30<sup>th</sup>, 2021, should be read in conjunction with the audited financial statements of Innovotech Inc. ("Innovotech", "we", or "the Company") for the year ended December 31, 2020, and the related notes thereto. This MD&A is provided by management using information available up to November 16<sup>th</sup>, 2021.*

*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), or at [www.innovotech.ca](http://www.innovotech.ca).*

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; 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 the 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. Should known risks 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.

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## OVERVIEW OF THE BUSINESS

Innovotech Inc. (the “Company”) was incorporated in 2001 under the Business Corporation Act of Alberta. The activities of the Company are sales of its products, contract research conducted for outside clients and research and development to identify future products. The Company owns, sells, and uses proprietary assay kits used in growing microbial biofilms for research purposes. The Company’s intellectual property includes a family of silver periodate antimicrobial compounds (InnovoSIL™) for medical applications, and a right to acquire a linked molecule to be tested for effective subdermal antioxidant delivery. The Company is a public company listed on the TSX Venture Exchange under the trading symbol IOT. Its registered office and laboratories are in Edmonton, Alberta, Canada.

## BUSINESS STRATEGY AND MARKETING

The Company has two main businesses: contract research, and the production and sale of the MBEC Assay® Kit. Innovotech has developed a complex silver periodate anti-microbial called InnovoSIL™-1, which is the subject of an active Collaboration Agreement with a global medical implant company.

In its contract research business, the Company is a leader in a niche market related to testing and qualifying medical devices such as implants and other products for their susceptibility to, or resistance to the formation of microbial biofilms. Innovotech has methodologies, equipment, and long experience that give it certain proprietary advantages and efficiencies. Innovotech is accredited by CALA (Canadian Association for Laboratory Accreditation Inc.) to ISO/IEC 17025 (testing accreditation number A4146 for Enumerating Bacteria – Solids and Enumerating Bacteria – Liquid). The Company designs and builds devices tailored to testing client-specific types of medical devices. Innovotech has resumed research and development for its own account and is working with potential partners in that regard.

Innovotech manufactures and sells the MBEC Assay® Kit, a sort of Petri Dish for biofilms, which keeps its name in the forefront of research and medical device testing in regard to microbial biofilms as outlined above. The consistent revenues from global sales of the Kits help mitigate the volatility inherent in contract research services. The association of the Kit with its contract research services contributes to Innovotech’s contract research marketing efforts. The Company applies proprietary coatings on Kits tailored to laboratory testing requirements.

The Company has pursued new contract research business by direct contact using e-mail and telephone communication supported by personal visits and conference attendances (paused during the Covid-19 pandemic) to maintain and expand our clientele. Rising revenues in 2019 and 2020 indicate that this approach has been effective. Contributing to industry awareness of Innovotech’s research capabilities is our publishing of Open Access research papers authored by Innovotech’s staff either alone or in partnership with other science-based organizations.

Innovotech is alert for participation in other related business activities and continues to look for opportunities to diversify its business, extend its reach and increase its revenues. This strategy is supported by the Company’s December 31<sup>st</sup>, 2020, long-term tax pools of \$7,485,000 available to reduce future net income for tax purposes.

### THREE-MONTH PERFORMANCE TO SEPTEMBER 30<sup>th</sup>, 2021 (Q3)

Third-quarter revenue of \$236,757 declined 33% from prior year Q3 revenue of \$351,476 and generated a 66% gross profit margin of \$157,395. The lower revenue occurred in the contract research side of the business. The contract research revenue decline is partly due to a timing issue as \$76,140 of protocols started in Q3 have been correctly deferred into the 4<sup>th</sup> quarter (see Outlook, page 5).

Higher Q3 general & administrative expenses of \$178,880 vs. \$156,034 reflect the acquisition of additional laboratory space, and an increased employee count over that of the prior year. The result was a loss of \$21,472 versus a profit of \$93,218 in Q3, 2020.

### THREE-MONTH FINANCIAL RESULTS OF OPERATIONS TO SEPTEMBER 30<sup>th</sup>, 2021 (Q3)

#### REVENUE & GROSS PROFIT

Period	Q3 2021	Q3 2020
Contract research fees	155,444	274,173
Product sales	73,196	68,471
Other revenue	8,117	8,832
<b>Gross revenue</b>	<b>236,757</b>	<b>351,476</b>
Cost of sales	79,362	76,795
<b>Gross profit</b>	<b>157,395</b>	<b>274,681</b>

#### OPERATING EXPENSES & NET INCOME (COMPREHENSIVE LOSS)

Period	Q3 2021	Q3 2020
General & administrative	178,880	156,034
Research & development (R&D)	5,302	23,929
Grants	-	-
<b>Operating expenses</b>	<b>184,182</b>	<b>179,963</b>
Interest expense (income)	(5,315)	1,500
<b>Net income (loss)</b>	<b>(21,472)</b>	<b>93,218</b>

### NINE MONTH PERFORMANCE TO SEPTEMBER 30<sup>TH</sup>, 2021

#### SUMMARY OF RESULTS:

Nine-month results broke above \$1 million for the first time. Revenues rose by 26% from \$811,767 in 2020 to \$1,025,549 in 2021. A gross profit margin of 75% generated a gross profit of \$770,559. Higher revenues came with a \$95,685 increase in general and administrative expenses mainly due to the higher employee count and rent attached to increased laboratory space.

Product sales increased by 50% to \$251,808 vs. \$167,965, and positive interest income of \$11,901 compared favorably with an interest cost of \$1,500 in the same period of the prior year.

## NINE MONTH FINANCIAL RESULTS OF OPERATIONS TO SEPTEMBER 30<sup>th</sup>, 2021

### REVENUE & GROSS PROFIT

Period	9 MO. 2021	9 MO. 2020
Contract research fees	749,193	634,970
Product sales	251,808	167,965
Other revenue	24,548	8,832
<b>Gross revenue</b>	<b>1,025,549</b>	<b>811,767</b>
Cost of sales	254,990	223,625
<b>Gross profit</b>	<b>770,559</b>	<b>588,142</b>

### OPERATING EXPENSES & NET INCOME

Period	9 MO. 2021	9 MO. 2020
General & administrative	585,614	489,929
Sales & marketing	-	-
Research & development	32,393	36,759
Grants	-	(40,940)
<b>Operating expenses</b>	<b>618,007</b>	<b>485,748</b>
Interest expense (income)	(11,901)	2,500
<b>Net income</b>	<b>164,453</b>	<b>99,894</b>

### EBITDAS

EBITDAS, or earnings before interest, taxes, depreciation, amortization, and stock-based compensation, is not a Generally Accepted Accounting Principle (GAAP); but it is a useful measure of comparative operational performance over quarterly and annual time periods. In Innovotech's case, EBITDAS and cash flow (also not a GAAP term) are almost the same thing on account of having no debt on which interest is paid and being able to access prior year's losses to reduce net income for tax purposes.

Period	9 MO. 2021	9 MO. 2020
Net income	164,453	99,894
Depreciation and amortization	14,773	12,252
Loss on disposal of equipment	-	93
Non-cash interest expense	-	2,500
Non-cash interest income	(2,212)	-
Share-based compensation	15,193	-
<b>EBITDAS</b>	<b>192,207</b>	<b>114,739</b>

### ASSETS, LIABILITIES & SHAREHOLDER'S EQUITY

Period	Sept. 30 <sup>th</sup> , 2021	Dec. 31 <sup>st</sup> , 2020
Current assets	893,602	752,725
Equipment	95,901	69,715
Investments	120,963	-

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	<b>Total assets</b>	<b>1,110,466</b>	<b>822,440</b>
Current liabilities		147,092	157,462
Long-term liabilities		20,000	20,000
	<b>Total liabilities</b>	<b>167,092</b>	<b>177,462</b>
	<b>Shareholder's equity</b>	<b>943,374</b>	<b>644,978</b>

## LIQUIDITY & CAPITAL RESOURCES

The Company continues to maintain a strong balance sheet and presently has liquid bank GIC investments in the amount of \$475,000 yielding 0.4%, or \$1,900 annually and has invested as of the date of this MD&A \$75,574 in TSX listed debentures returning annual interest income of \$3,875:

Amount (\$)	Debenture	Maturity	Price	Annual Income (\$)
15,000	Good Natured Products 7%	31 Oct, 2026	101.25	1,050
25,000	Rogers Sugar 5%	31 Dec, 2024	103.75	1,250
30,000	Slate Office REIT 5.25%	28 Feb, 2023	102.00	1,575

As of September 30<sup>th</sup>, 2021, including the above listed debentures, the Company had working capital of \$746,510. Innovotech has no debt excepting the \$20,000 owing under a non-interest-bearing CEBA federal government loan, which is intended to be repaid prior to December 31<sup>st</sup>, 2022. Accordingly, the Company is adequately funded to maintain its business and to meet its obligations in the ordinary course as they come due.

The \$150,000 CanBiocin convertible debenture carried under Investments, above, is a long-term asset returning \$12,000 annually. On April 14<sup>th</sup>, 2022 blended payments of Principal and Interest commence unless the debenture is converted into 120,000 CanBiocin shares. The blended payments have the effect of reducing the number of shares into which the debenture is convertible.

## OUTLOOK

Innovotech is unable to accurately gauge the longer-term effects of the COVID-19 pandemic on operations of the company. However, the Company has stayed fully operational during the pandemic and will use its best efforts to continue to do so. See "Covid-19 risk" under Risk Management.

Innovotech expects the 20% annual revenue growth trend recorded over the last two years to remain intact through 2021. We remind shareholders that there is volatility inherent in contract research work. This volatility is evident in the comparative tables provided above and below. Our revenue trend can vary materially on a quarterly basis. Thus, while Q3, 2021 was weakened by timing of contract invoices, the deferral of \$76,140 of Q3 contract research revenues into Q4 has only served to strengthen an already firm Q4, that looks like providing a strong finish to the 2021 year.

The Company's recently renewed proprietary research and product development initiatives (See page 7) has generated discussion with others regarding innovative work in our anti-microbial field. We are also seeing interest in partner collaborations on new applications for InnovoSIL™-1 following on previously signed non-disclosure and material transfer agreements.

The Company will maintain its focus on growing its revenues while being alert to opportunities to expand the business through acquisition and income-generating investments.

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## SELECTED QUARTERLY FINANCIAL INFORMATION

2021	Q3, 2021	Q2, 2021	Q1, 2021
	\$	\$	\$
Gross revenue	236,757	480,217	308,575
<b>Net income (loss)</b>	<b>(21,472)</b>	<b>163,690</b>	<b>22,235</b>
<b>Income (loss) per share</b>	<b>(0.0005)</b>	<b>0.004</b>	<b>0.0006</b>
Assets	1,110,466	1,081,367	964,144
Liabilities	167,092	116,520	178,181
Shareholder's equity	943,374	964,847	785,963

2020	Q4, 2020	Q3, 2020	Q2, 2020	Q1, 2020
	\$	\$	\$	\$
Gross revenue	381,615	351,476	333,904	126,387
<b>Net income (loss)</b>	<b>6,423</b>	<b>93,218</b>	<b>121,974</b>	<b>(115,298)</b>
<b>Income (loss) per share</b>	<b>0.0002</b>	<b>0.002</b>	<b>0.003</b>	<b>(0.003)</b>
Assets	822,440	878,107	379,109	238,882
Liabilities	177,462	302,004	266,596	256,093
Shareholder's equity	644,978	576,103	112,513	(17,211)

2019	Q4, 2019	Q3, 2019	Q2, 2019	Q1, 2019
	\$	\$	\$	\$
Gross revenue	228,706	248,884	286,614	222,021
<b>Net income (loss)</b>	<b>(44,412)</b>	<b>15,200</b>	<b>(5,031)</b>	<b>(14,518)</b>
<b>Income (loss) per share</b>	<b>(0.001)</b>	<b>0.0004</b>	<b>(0.0001)</b>	<b>(0.0004)</b>
Assets	274,882	275,003	242,660	271,682
Liabilities	176,795	180,111	166,939	190,931
Shareholder's equity	98,087	94,892	75,721	80,751

## DEVELOPMENTS SUBSEQUENT TO SEPTEMBER 30<sup>TH</sup>, 2021

### APPOINTMENT OF DR. PATRICIA NADWORNY AS CHIEF SCIENCE OFFICER TO LEAD RESEARCH & DEVELOPMENT

Innovotech has made a second appointment of an officer to our management suite this year: the Board of Directors has appointed Dr. Patricia Nadworny, B. Sc., Ph.D., P.Eng., as Chief Scientific Officer. Dr. Nadworny has been with Innovotech since early 2010, when she was hired as a Research Associate. She was appointed Product Development Manager in 2012, and Quality and Safety Director in 2019. Dr. Nadworny obtained her undergraduate degree (BSc. Chemical Engineering with distinction, first in class) in 2004 at the University of Alberta in the Department of Chemical & Materials Engineering. She stayed to earn her Ph.D. in Chemical & Materials Engineering and Biomedical Engineering at the University of Alberta's Faculties of Engineering and Medicine and Dentistry, respectively, with a focus on biological activity of nanostructured silver. In her new position, Dr. Nadworny will continue to oversee quality assurance and safety operations at the laboratory level, reporting to Dr. James Timourian, Innovotech's president. Mainly however, Dr. Nadworny will be responsible for our reinstated R&D program.

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## RESEARCH & PRODUCT DEVELOPMENT (R&D)

Innovotech will resume R&D as an operating component of the business in a measured manner beginning in the 4<sup>th</sup> quarter of 2021. We have a short-list of product-focused R&D work. We have continuing work to do on the Nou Life patent, and we have an extensive knowledge base regarding the InnovoSIL™ family of anti-microbials that we believe we can develop for novel applications.

Scientific R&D costs are expensed as incurred. Innovotech understands that heavy R&D expenditures can have a negative effect on net income from operations. It is not the intention of the Board of Directors to have R&D drive Innovotech's financial performance. It is the intention of the Board of Directors to discipline expenditures on R&D and to leverage the amount allocated through government grants or industry joint venture participation. Upward increments to expenditures will be available to the extent that the Company is able to leverage its R&D through those government grants or industry joint venture participation.

## **ABOUT CANBIOCIN INC**

The Company owns a \$150,000 CanBiocin 8% debenture convertible into 120,000 shares of CanBiocin common stock at \$1.25 per share.

CanBiocin is a global leader in species-specific companion animal and livestock probiotic development. With a mission to build health from the inside out, the company targets overall microbiome health to support all animal body systems and functions. CanBiocin began as a University of Alberta spin-off company and first commercialized Micocin®, a probiotic metabolite used to inhibit the growth of *Listeria monocytogenes* in processed meat products and that may have beneficial application in livestock feed.

Today, its premium canine, other pet probiotic lines and livestock probiotics help global feed companies fill their customers' needs to care for their pets and animals. CanBiocin has a growing number of customers in North America, as well as internationally, and can be found online at [www.canbiocin.ca](http://www.canbiocin.ca).

## **ABOUT NOU LIFE SCIENCES INC.**

The Company has the right but not the obligation to earn a 60% interest in the issued capital of Nou Life Sciences Inc by spending \$100,000 prior to August 2022 on development of the Nou Life patent.

The Nou Life patent rests on the linking of alpha-lipoic acid and L-carnitine into one molecule. Lipoic acid and Carnitine are well known antioxidants that have applications in health care related to skin products. The linking of the two molecules has been indicated by Nou Life to increase the beneficial properties of the separate molecules by improving their transdermal penetration, which is necessary in order to perform subdermal antioxidant activity toward a healthier skin. The objective of the earn-in Agreement is to confirm performance of the linked molecules toward a more effective antioxidant in skincare applications. Innovotech's research and testing of the linked molecules will seek to confirm that they improve function in skin treatment sufficiently to encourage their use in nutraceutical and cosmetic applications. Innovotech will also investigate the indicated extent of the molecule's skin penetration in anticipation of a positive effect on nerve cell reinvigoration for treatment of neuropathy.

The Company is continuing work to establish a linking of the molecules using a contract chemistry laboratory in Edmonton. The nature of the transaction enables the Company to tightly control the pace and extent of its investment in a manner that reduces the inherent risk in developing new technology.

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## CONTRACTUAL OBLIGATIONS

Innovotech records long-term debt of \$20,000 on its March 31<sup>st</sup> balance sheet, which is the remainder payable of the Canada Emergency Business Account loan. The CEBA loan is non-interest-bearing until December 31<sup>st</sup>, 2022, before which time it is the Company's intention to repay it.

## OUTSTANDING SHARE CAPITAL

As at the date of this MD&A, there are 38,909,612 Class A common shares issued out of an unlimited number of Class A voting shares.

## OUTSTANDING STOCK OPTIONS

Issuance of 115,000 of incentive stock options and the forfeiture of 631,000 of such options, resulted in 1,670,000 incentive stock options outstanding as of September 30<sup>th</sup>, 2021. In October, the Company issued stock options numbering 175,000 in the amount of 25,000 each at an option exercise price of \$0.20 for 5 years. Accordingly, there are now 1,845,000 incentive stock options issued.

## GEOGRAPHIC SALES INFORMATION

	Three-month period ended		Nine-month period ended	
	Sept. 30 <sup>th</sup> 2021	Sept. 30 <sup>th</sup> 2020	Sept. 30 <sup>th</sup> 2021	Sept. 30 <sup>th</sup> 2020
	\$	\$	\$	\$
Canada	6,135	2,325	55,700	33,110
United States	188,636	320,577	840,487	694,884
Rest of World	41,986	28,574	129,362	83,773
	<b>236,757</b>	<b>351,476</b>	<b>1,025,549</b>	<b>811,767</b>

## RISK MANAGEMENT

Innovotech recognizes currency risk, credit risk and liquidity risk as primary risks.

Innovotech's objectives when managing capital are to ensure its ability to continue as a going concern while seeking to maximize return to shareholders by minimizing shareholder dilution in a manner consistent with maintaining adequate working capital, equipment, and facilities while maintaining optionality in the Company's operations.

### CURRENCY RISK:

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's reporting currency is the Canadian dollar, and it incurs costs primarily in that currency. It realizes its revenues primarily in US dollars. A rising Canadian dollar in US dollar terms would lead to a decrease in the Company's revenue all other things being equal. The Company does not use derivative instruments to hedge its exposure to foreign currency risk.

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#### CREDIT RISK:

The Company is exposed to credit risk through its cash and accounts receivable.

The Company's principal credit risk is the risk that a counterparty will fail to discharge its financial obligation in payment for the Company's services. The Company endeavors to mitigate credit risk to ½ its contract research revenues as it requires that 50% of the estimated cost of its contracts be paid prior to beginning work on a contract. We do not insure our credit risks.

#### LIQUIDITY RISK:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

We manage accounts payable against accounts receivable and carry a balance of cash to accommodate that. Innovotech's planned 2021 operational expenditures do not exceed its committed sources of funds and are manageable against the Company's expected revenues and expenses. As of September 30<sup>th</sup>, 2021, our current assets were \$893,602, our current liabilities were \$147,092 providing a working capital balance of \$746,510.

#### COVID-19 RISK:

In addition to the above financial risks, Innovotech is aware of risks attached to the COVID-19 pandemic. The COVID-19 outbreak has forced many businesses to close, leading to an unprecedented disruption of business in many sectors. Innovotech has put in place risk mitigation measures to separate people from each other through physical distancing including physical barriers. Innovotech requires that employees stay at home if feeling ill with possible symptoms of COVID-19 until criteria to discontinue isolation have been met. In addition, we have posted highly visible signage to discourage employees/clients from entering the workplace unless they feel well. In addition to wearing medical masks in the workplace, management has provided increased access to hand sanitizer dispensers and established increased environmental cleaning and disinfecting protocols for employees' work environments.

Another risk of the COVID-19 pandemic has been the disruption of and pressure on supply chains for laboratory consumables required for Innovotech's work. Innovotech has implemented procedures and adjusted inventory planning and purchasing to lessen the risk.

### **SIGNIFICANT ESTIMATES & CRITICAL JUDGEMENTS**

The preparation of interim 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.

Non-financial assets, including equipment, 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 the 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.

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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 share-based compensation charged to operations.

The significant accounting policies that are most critical in fully understanding and evaluating the reported results in this MD&A are included in notes 1 to 3 to the Company's Annual Financial Statements as of December 31, 2020.

End