

# **Innovotech Inc.**

Financial Statements

**December 31, 2020 and 2019**

(Expressed in Canadian Dollars)



## Independent Auditor's Report

To the Shareholders of Innovotech Inc.

### Opinion

We have audited the financial statements of Innovotech Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2020 and December 31, 2019, and the statements of changes in shareholders' equity (deficiency), statements of operations and comprehensive income (loss) and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.



### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Trevor Nakanishi.

Vancouver, B.C.  
April 20, 2021

***"D&H Group LLP"***

**Chartered Professional Accountants**

# Innovotech Inc.

## Statement of Financial Position

As at December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	2020 \$	2019 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	530,144	96,671
Marketable securities	20,000	-
Trade and other receivables (note 5)	143,514	101,155
Inventory (note 6)	38,880	21,531
Prepaid expenses	20,187	5,468
	752,725	224,825
<b>Equipment</b> (note 7)	69,715	50,057
	822,440	274,882
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	111,782	73,977
Deferred revenue	45,680	2,818
	157,462	76,795
<b>Due to shareholder</b> (note 8)	-	100,000
<b>Term loan</b> (note 9)	20,000	-
	177,462	176,795
<b>Shareholders' Equity (Deficiency)</b>		
<b>Share capital</b> (note 10(a))	7,576,487	7,344,818
<b>Warrants</b> (note 10(b))	159,543	-
<b>Contributed surplus</b>	1,531,576	1,482,214
<b>Deficit</b>	(8,622,628)	(8,728,945)
	644,978	98,087
	822,440	274,882
<b>Nature of operations</b> (note 1)		

## Approved by the Board of Directors

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(Signed) "Alan Savage" Director (Signed) "James Timourian" Director

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

# Innovotech Inc.

## Statement of Changes in Shareholders' Equity (Deficiency)

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Share capital \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
<b>Balance – January 1, 2020</b>	7,344,818	-	1,482,214	(8,728,945)	98,087
Net and comprehensive income for the year	-	-	-	106,317	106,317
Shares and warrants issued on private placement (note 10(b))	206,579	159,543	-	-	366,122
Share based compensation (note 10(c))	-	-	61,652	-	61,652
Exercise of options (note 10(a))	25,090	-	(12,290)	-	12,800
<b>Balance – December 31, 2020</b>	<b>7,576,487</b>	<b>159,543</b>	<b>1,531,576</b>	<b>(8,622,628)</b>	<b>644,978</b>
<b>Balance – January 1, 2019</b>	7,344,818	-	1,428,836	(8,680,184)	93,470
Net and comprehensive loss for the year	-	-	-	(48,761)	(48,761)
Shares issued (note 10(a))	-	-	-	-	-
Share based compensation (note 10(c))	-	-	53,378	-	53,378
<b>Balance – December 31, 2019</b>	<b>7,344,818</b>	<b>-</b>	<b>1,482,214</b>	<b>(8,728,945)</b>	<b>98,087</b>

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

# Innovotech Inc.

## Statement of Operations and Comprehensive Income (Loss)

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	2020 \$	2019 \$
<b>Revenue</b> (note 18)		
Contract research fees	928,862	693,612
Product sales	247,002	292,613
Other revenue	17,518	-
	<u>1,193,382</u>	<u>986,225</u>
 <b>Cost of sales</b> (note 12)		
Contract research	239,628	172,919
Product sales	86,880	118,193
	<u>326,508</u>	<u>291,112</u>
 <b>Gross profit</b>	<u>866,874</u>	<u>695,113</u>
 <b>Operating expenses</b> (note 12)		
General and administrative	760,262	714,450
Bad debt expense	-	22,873
Sales and marketing	275	3,723
Research and development	47,960	23,421
Grants (note 13)	(40,940)	(26,593)
	<u>767,557</u>	<u>737,874</u>
 Interest expense (note 8 and 14)	(3,000)	(6,000)
Term loan forgiveness (note 9)	10,000	-
	<u>106,317</u>	<u>(48,761)</u>
 <b>Net income (loss) and comprehensive income (loss) for the year</b>	<u>\$</u>	<u>\$</u>
 <b>Basic and diluted income (loss) per common share</b> (note 10(d))	0.00	(0.00)
	#	#
 <b>Weighted average number of common shares outstanding for the year</b> (note 10(a))	<u>38,284,612</u>	<u>36,239,612</u>

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

# Innovotech Inc.

## Statement of Cash Flows

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	2020 \$	2019 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the year	106,317	(48,761)
Adjustments for:		
Depreciation	17,937	13,285
Loss (gain) on disposal of equipment	92	-
Interest expense	3,000	6,000
Stock-based compensation (note 10(c))	61,652	53,378
Term loan forgiveness (note 9)	(10,000)	-
	178,998	23,902
Net change in non-cash working capital items (note 15)	(13,760)	52,398
	175,238	76,300
<b>Investing activities</b>		
Purchase of equipment	(37,687)	(2,438)
	(37,687)	(2,438)
<b>Financing activities</b>		
Issuance of shares and warrants (note 10(a))	375,000	-
Share issuance cost (note 10(a and b))	(8,878)	-
Exercise of options (note 10(a))	12,800	-
Due to shareholders repaid (note 8)	(100,000)	-
Term loan advanced (note 9)	40,000	-
Term loan repaid (note 9)	(10,000)	-
Interest paid	(3,000)	(5,999)
	305,922	(5,999)
<b>Increase in cash and cash equivalents</b>	433,473	67,863
<b>Cash and cash equivalents – Beginning of year</b>	96,671	28,808
<b>Cash and cash equivalents – End of year</b>	530,144	96,671

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



# **Innovotech Inc.**

## **Notes to Financial Statements**

**December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

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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.

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. In mid-March 2020, federal, provincial, and local authorities in Canada, the United States, and other nations began to significantly restrict the ability of people to leave their homes and carry out normal day-to-day activities. These measures will have a significant, negative effect on the economy of all nations, for an uncertain period of time. The ability of the Company to carry on normal business activities and to otherwise meet its obligations to creditors and others is also uncertain.

### **2 Basis of preparation**

These financial statements are audited and have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were approved by the Board of Directors for issue on April 20, 2021.

### **3 Significant accounting policies**

These financial statements have, in management's opinion, been prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

#### **a) Basis of measurement**

The financial statements have been prepared under the historical cost convention.

#### **b) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less, and which are subject to an insignificant risk of changes in value.

# Innovotech Inc.

## Notes to Financial Statements

**December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

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c) Inventories

Inventories of products for resale are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less estimated costs necessary to make the sale.

d) Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to earnings during the period in which they are incurred.

The major categories of equipment are depreciated on a declining balance basis as follows:

Laboratory and office equipment	20%
Computer equipment	30%

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

e) Research and development

The Company undertakes research and development in the course of identifying and preparing products for commercialization. Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use the technology, are met, otherwise they are expensed as incurred. No development costs have been capitalized to date. The Company expenses costs incurred in pursuit of patents.

f) Impairment of non-financial assets

Equipment is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

# Innovotech Inc.

## Notes to Financial Statements

**December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

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g) Revenue recognition

Contract research fees relate to research services provided to third-party customers. Where costs and revenues associated with a contract can be measured reliably, revenue is recognized using the percentage of completion method based on the proportion of estimated total costs of the contract incurred to date. In rare circumstances where reliable estimates cannot be made, but it is still probable that incurred costs will be recovered, revenue is only recognized to the extent of costs incurred.

Contract research fees may include milestone payments which require the Company's ongoing involvement. In these cases, revenue is recognized upon achievement of the milestone as specified in the agreement, provided payment is proportionate to the effort expended as measured by the ratio of costs expended to total estimated costs.

Unbilled revenue represents costs incurred plus estimated gross profit in excess of billings on incomplete contracts.

Revenue from product sales is recognized upon delivery of the product when persuasive evidence of an arrangement exists, the price is fixed or determinable and collection is reasonably assured.

License fees are the signing fees from potential partners in joint development or commercialization agreements. These fees are non-refundable fees received at the inception of an agreement and are recognized when the Company has no further involvement or obligation to perform under the agreement.

Grants in support of research activities are recognized as the related expenses are recognized, once there is reasonable assurance that the grant will be received and that the Company will comply with the grant conditions.

h) Stock-based compensation

The Company has a stock option plan for the benefit of certain officers, directors, employees and consultants. Awards of stock options are accounted for and measured by reference to the fair value of the equity instruments granted as share-based compensation and result in compensation expense. The amount of compensation is measured at the date of option grant. The expense is recognized in income over the service period of the employee to whom the option was granted with a corresponding amount recorded in contributed surplus. When a stock option is exercised any consideration received in addition to the amount previously recorded in contributed surplus is credited to share capital. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

i) Warrants

The Company may raise capital through the issuance of units, which include both common shares and share purchase warrants. Proceeds raised are allocated first to warrants, based on an estimate of fair

# Innovotech Inc.

## Notes to Financial Statements

**December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

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value determined using the Black-Scholes option pricing model, with the residual allocated to share capital.

j) Income (loss) per share

Income (loss) per share is based on the weighted average number of common shares outstanding during the year. Diluted income (loss) per share is calculated using the treasury stock method, whereby deemed proceeds from the exercise of options and warrants with an exercise price below the average market price of the shares, is considered to be used to reacquire common shares at the average market price during the year.

k) Income taxes and refundable tax credits

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference, or unused tax loss or credit can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

Refundable scientific research and experimental development (SRED) tax credits are recorded using the cost reduction method, whereby credits are deducted from related expenses once reasonable assurance of realization is established.

l) Foreign currency translation

The Company's functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect as of the balance sheet date. Gains and losses are recognized in income on a current basis.

# Innovotech Inc.

## Notes to Financial Statements

**December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

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### m) Financial instruments

#### Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

#### Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise. On recognition, cumulative gains and losses of financial assets in other comprehensive income or loss are reclassified to profit or loss.

#### Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversals) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### n) 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

# Innovotech Inc.

## Notes to Financial Statements

**December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

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

### Impairment of non-financial assets

Non-financial assets, including equipment is 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.

### 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.

### o) Segment reporting

While the Company has achieved commercialization of certain of its products, discrete financial information is not prepared on a segmented basis and resource allocation decisions are not based on segmented operating results. Therefore, the Company currently has no operating segments to report.

### p) Leases

The Company recognizes a right-of-use asset and a lease liability for its leases. The right-of-use asset is measured at cost and depreciated over its estimated useful life. At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. If the lease terms are subsequently changed, the present value of the lease liability is re-measured using the revised lease terms and applying the appropriate discount rate to the remaining lease payments. The Company recognizes the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognizes any remaining amount of the re-measurement in profit or loss. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

## 4 Accounting standards changes

There are no new or amended International Financial Reporting standards or interpretations that required adoption by the Company during the year.

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 5 Trade and other receivables

	2020 \$	2019 \$
Trade receivables net of allowance for doubtful accounts	136,943	97,933
Goods and services tax recoverable	6,571	3,222
	<u>143,514</u>	<u>101,155</u>

The maximum exposure to credit risk is the carrying amount of each class of receivable listed above. The Company does not hold any collateral as security. Allowance for doubtful accounts totals \$nil (2019 – \$nil).

The ageing of receivables is as follows:

	2020 \$	2019 \$
Neither past due nor impaired	130,050	96,270
Up to 3 months past due	13,464	4,885
	<u>143,514</u>	<u>101,155</u>

Amounts that are neither past due nor impaired relate to either government reimbursements or are receivable from a number of independent customers for whom there is no recent history of default.

Customers accounting for 10% or more of the Company's revenue are as follows:

	2020 \$	2019 \$
Customer #1	717,045	410,283

### 6 Inventory

The cost of inventories recognized as expense and included in cost of sales was \$196,090 (2019– \$181,906). Included in cost of sales is \$nil (2019 – \$nil) to write-down expired inventories to net realizable value.

# Innovotech Inc.

## Notes to Financial Statements

**December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

### 7 Equipment

	<b>Laboratory equipment \$</b>	<b>Computer equipment \$</b>	<b>Office equipment \$</b>	<b>2020 Total \$</b>
<b>Cost</b>				
Balance – January 1, 2020	323,866	79,162	14,801	417,829
Additions	23,293	14,394	-	37,687
Disposal	(531)	-	-	(531)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance – December 31, 2020	346,628	93,556	14,801	454,985
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>				
Balance – January 1, 2020	280,718	73,634	13,420	367,772
Disposal	(439)	-	-	(439)
Depreciation	12,940	4,721	276	17,937
	<hr/>	<hr/>	<hr/>	<hr/>
Balance – December 31, 2020	293,219	78,355	13,696	385,270
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value – December 31, 2020</b>	<hr/> <b>53,409</b>	<hr/> <b>15,201</b>	<hr/> <b>1,105</b>	<hr/> <b>69,715</b>



# Innovotech Inc.

## Notes to Financial Statements

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(Expressed in Canadian Dollars)

	Laboratory equipment \$	Computer equipment \$	Office equipment \$	2019 Total \$
<b>Cost</b>				
Balance – January 1, 2019	351,262	76,724	14,801	442,787
Additions	-	2,438	-	2,438
Disposal	(27,396)	-	-	(27,396)
Balance – December 31, 2019	323,866	79,162	14,801	417,829
<b>Accumulated depreciation</b>				
Balance – January 1, 2019	297,326	71,481	13,075	381,882
Disposal	(27,396)	-	-	(27,396)
Depreciation	10,788	2,153	345	13,286
Balance – December 31, 2019	280,718	73,634	13,420	367,772
<b>Net book value – December 31, 2019</b>	43,148	5,528	1,381	50,057

Depreciation of \$12,940 (2019 – \$10,788) is included in cost of sales and \$4,997 (2019 – \$2,498) in general and administrative expenses.

## 8 Due to shareholder

The amount due to a shareholder of the Company consisted of a \$100,000 line of credit which was repayable on demand and bore 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 was therefore classified as a non-current liability. In response to the COVID-19 pandemic, the shareholder agreed to wave the interest payment for four months. On October 30, 2020 the Company repaid the outstanding balance on the line of credit. Interest incurred on the loans during the year was \$3,000 (2019 – \$6,000).

## 9 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. The Company repaid \$10,000 of the term loan during the year.

# Innovotech Inc.

## Notes to Financial Statements

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(Expressed in Canadian Dollars)

### 10 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	170,000	12,800	-	-
Shares issued on private placement	1,875,000	206,579	-	-
Closing balance	38,284,612	7,564,197	36,239,612	7,344,818

#### b) Warrants

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 \$ resulted in net proceeds of \$366,122 of which \$159,543 were attributed to warrants.

#### c) 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 or as otherwise 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 \$61,652 for the year ended December 31, 2020 (2019 – \$53,378).

# Innovotech Inc.

## Notes to Financial Statements

**December 31, 2020 and 2019**

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### 2020 transactions

On October 13, 2020, the Company granted to directors and certain employees 295,000 stock options at an exercise price of \$0.21 with an expiry date of October 13, 2025. These stock options vest immediately. The estimated fair value of these options is \$0.2090 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	173.81%
Risk-free interest rate	0.59%
Expected life of options	5 years

### 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:

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

On October 22, 2019, the Company granted to certain directors and employees 485,000 stock options at an exercise price of \$0.10 with an expiry date of October 22, 2024. These stock options vest immediately. The estimated fair value of these options is \$0.0891 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	230.67%
Risk-free interest rate	1.52%
Expected life of options	5 years

On December 16, 2019, the Company granted to a director 50,000 stock options at an exercise price of \$0.10 with an expiry date of December 16, 2024. These stock options vest immediately. The estimated fair value of

# Innovotech Inc.

## Notes to Financial Statements

**December 31, 2020 and 2019**

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these options is \$0.0888 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	221.26%
Risk-free interest rate	1.63%
Expected life of options	5 years

	<b>2020</b>		<b>2019</b>	
	<b>Stock options #</b>	<b>Weighted average exercise price \$</b>	<b>Stock options #</b>	<b>Weighted average exercise price \$</b>
Outstanding – Beginning of year	2,105,000	0.16	2,043,000	0.21
Granted	295,000	0.21	621,000	0.10
Exercised	(170,000)	0.08	-	-
Expired	(44,000)	0.08	(62,500)	0.07
Forfeited	-	-	(496,500)	0.31
Outstanding – End of year	2,186,000	0.16	2,105,000	0.16
Exercisable – End of year	2,186,000	0.16	2,069,000	0.16

On February 18, 2021, 20,000 stock options, exercisable at \$0.52, expired.

	<b>2020</b>		<b>2020</b>	
	<b>Outstanding</b>		<b>Exercisable</b>	
<b>Range of exercise price \$</b>	<b>Weighted Average Exercise price \$</b>	<b>Number of shares #</b>	<b>Weighted average contractual life (years)</b>	<b>Number of shares #</b>
\$0.45 to \$0.72	0.52	144,000	0.84	144,000
\$0.10 to \$0.35	0.18	1,296,000	4.02	1,296,000
\$0.05 to \$0.09	0.05	746,000	4.53	746,000
	0.16	2,186,000	3.99	2,186,000

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Range of exercise price \$	Weighted Average Exercise price \$	Number of shares #	2019	
			Outstanding	Exercisable
			Weighted average contractual life (years)	Number of shares #
\$0.45 to \$0.78	0.58	188,000	1.35	188,000
\$0.11 to \$0.35	0.17	1,076,000	4.84	1,076,000
\$0.05 to \$0.09	0.05	841,000	5.52	841,000
	0.16	2,105,000	4.80	2,105,000

d) Income (loss) per share

	December 31, 2020 \$	December 31, 2019 \$
<b>Calculation of basic income (loss) per share</b>		
Net income (loss)	106,317	(48,761)
Opening number of common shares	36,239,612	36,239,612
Weighted average number of common shares issued during the year	697,391	-
	36,937,003	36,239,612
Basic income (loss) per share	0.00	(0.00)
	December 31, 2020 \$	December 31, 2019 \$
<b>Calculation of diluted income (loss) per share</b>		
Adjusted net income (loss)	106,317	(48,761)
Weighted average number of common shares from basic income (loss) per share	36,937,003	36,239,612
Effect of dilution from:		
Share options	817,399	-
	37,754,402	35,623,174
Diluted income (loss) per share	0.00	(0.00)

For 2019, shares potentially issuable upon the exercise or conversion of stock options have been excluded for the calculation of diluted loss per share because the effect would have been anti-dilutive.

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## Notes to Financial Statements

December 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 11 Income taxes

a) Income tax expense

The tax on the Company's income (loss) before tax differs from the theoretical amount that would arise using the statutory rate applicable to the Company as follows:

	2020 \$	2019 \$
<b>Income (loss) before income taxes</b>	106,317	(48,761)
Tax calculated at applicable statutory tax rates applicable to profit	29,000	(13,000)
Tax effects of:		
Tax losses and other items for which no deferred income tax asset was recognized	(29,000)	13,000
Adjustment in respect to prior years	-	-
<b>Tax charge</b>	-	-

The statutory tax rate was 27% (2019 – 27%).

b) Deferred income tax

The Company's deductible temporary differences include the following:

	2020 \$	2019 \$
Share issue costs	11,000	8,000
Equipment and licenses	1,063,000	1,187,000
Non-capital losses	3,186,000	3,193,000
SR&ED expenditure pool	3,225,000	3,205,000
	7,485,000	7,539,000

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of \$2,021,000 (2019 – \$2,050,000) in respect of deductible temporary differences amounting to \$7,485,000 (2019 – \$7,539,000) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$3,186,000 (2019 – \$3,193,000) that can be carried forward to use against future taxable income. These non-capital losses expire based on the dates listed below. Also included in these deductible temporary differences are scientific research and experimental development (SR&ED) pool expenditures amounting to \$3,225,000 (2019 – \$3,205,000) that can be carried forward to use against future net income for tax purposes. These SR&ED pool expenditures do not expire.

# Innovotech Inc.

## Notes to Financial Statements

**December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

The Company did not recognize the benefits of non-refundable research and development tax credits amounting to \$959,000 (2019 – \$954,000). These tax credits can be carried forward against future federal income tax payable.

The non-capital losses and non-refundable research and development tax credits will expire as follows:

	<b>Non-capital loss carry- forwards</b>	<b>Federal investment tax credits</b>
	<b>\$</b>	<b>\$</b>
2025	140,000	29,000
2026	45,000	32,000
2027	-	52,000
2028	181,000	158,000
2029	251,000	151,000
2030	187,000	130,000
2031	517,000	147,000
2032	534,000	152,000
2033	683,000	9,000
2034	482,000	19,000
2035	-	32,000
2036	-	16,000
2037	75,000	7,000
2038	76,000	15,000
2039	15,000	4,000
2040	-	5,000
	<u>3,186,000</u>	<u>959,000</u>

## 12 Expenses by nature

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Employee compensation		
Salaries and wages	505,398	474,109
Share-based payments	61,652	53,378
Short-term benefits	3,628	2,921
	<u>570,678</u>	<u>530,408</u>
Depreciation	17,937	13,285
Professional and consulting fees	157,279	141,253
Rent and maintenance	108,650	101,308
Materials and supplies	196,090	182,996
Insurance	11,116	11,298
Patent costs	27,450	-
Other	45,805	75,031
Less: Grants and tax credits	<u>(40,940)</u>	<u>(26,593)</u>
Total cost of sales and operating expenses	<u>1,094,065</u>	<u>1,028,986</u>

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 13 Grants

- a) The Company qualified for a project with the Industrial Research Assistance Program ("IRAP") in 2019 with respect to innovative product development activities, which ended in 2020. The total amount of IRAP grant received and recognized were \$3,407 (2019 – \$26,593), which were recorded as a reduction of research and development expenses.
- b) The Canadian Government has approved legislation with the intent to provide aid to businesses affected by COVID-19. This included the Canada Emergency Wage Subsidy, announced by the Government of Canada in April 2020. Subsidies have been made available to qualifying entities to offset certain expenses relating to employee wages, payroll taxes and office rent. For the year ended December 31, 2020, we determined that the Company qualified and submitted claims for \$37,533 (2019 – \$nil) from various governments, which have been received and recognized as a grants in the statements of comprehensive income (loss).

### 14 Related party transactions

Certain related parties provide services to the Company either directly or through companies that they control. Fees (net of GST) charged by such companies for administrative and professional services were as follows:

	Relationship	Transaction	2020 \$	2019 \$
David Tam, Parlee McLaws LLP	Corporate Secretary and Legal Counsel, Director	Professional fees	133,823	33,932
Bernard Grobbelaar	Chief Financial Officer, Director	Professional fees	54,500	55,850
Dr. James Timourian	Chief Executive Officer, President	Professional fees	13,500	18,000
Alan Savage	Chief Financial Officer, Director	Interest expense	3,000	6,000

At December 31, 2020, \$28,102 (2019 – \$631) remained outstanding and is included in accounts payable. These services are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

### Compensation of key management

Key management include the Company's directors and officers. Compensation awarded to key management included:

	2020 \$	2019 \$
Salaries and short-term employee benefits	142,346	135,706
Termination benefit	-	-
Share based payments	14,315	38,844
	<u>156,661</u>	<u>174,550</u>



# Innovotech Inc.

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

	2020 \$	2019 \$
Marketable securities	(20,000)	-
Trade and other receivables	(42,359)	46,636
Inventory	(17,349)	6,617
Prepaid expenses	(14,719)	1,210
Accounts payable and accrued liabilities	37,805	(4,883)
Deferred revenue	42,862	2,818
	<u>(13,760)</u>	<u>52,398</u>

### 16 Capital management

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its research and development activities, corporate, administration and marketing expenses, working capital and overall capital expenditures. The Company makes every attempt to manage its liquidity to minimize shareholder dilution whenever possible.

The Company defines capital as net equity, comprised of issued common shares, warrants, contributed surplus and deficit. No quantitative targets or benchmarks are used in managing capital.

Since inception, the Company has primarily financed its liquidity through public offerings of common shares and private placements. The Company has also met its liquidity needs through non-dilutive sources, such as research grants, shareholder loans, interest income and revenue from contract research activity.

The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's objectives and what it manages as capital since the prior fiscal period.

### 17 Financial instruments

Financial instruments consist of recorded amounts of cash, accounts receivable, accounts payable and accrued liabilities and repayable contributions.

#### a) Fair value

The Company has determined that the carrying amount of financial instruments included in working capital is a reasonable approximation of fair value due to the short-term nature of these items.

#### b) Credit risk

Credit risk arises from the potential that a counterparty will cause a financial loss by failing to discharge an obligation. The Company is exposed to credit risk through its cash and accounts receivable. The Company deposits its cash with a major Canadian bank. The Company assesses its credit risk on a regular basis and records an allowance to provide for anticipated credit losses. The Company conducts business with a variety of

# Innovotech Inc.

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customers, however a small number of customers may comprise a significant proportion of revenue in any given period, thereby giving rise to a concentration of credit risk. See note 5 for further details.

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company earns a significant portion of its revenue in United States dollars. The Company also incurs expenses in United States dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company believes that the results of operations and cash flows could be affected by changes in foreign exchange rates, but would not significantly impact its ability to meet its obligations.

Gains and losses arising from fluctuations in US dollar exchange rates are reflected in general and administrative expense for the year. The Company recorded a foreign exchange loss of \$9,987 in 2020 (2019 – loss of \$9,821).

The following table summarizes accounts denominated in US dollars at December 31:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Cash	6,482	584
Accounts receivable	122,662	72,305
Accounts payable and accrued liabilities	(828)	(423)
Net exposure	<u>128,316</u>	<u>72,889</u>

The following exchange rates applied at December 31:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
US\$ – CAS\$	<u>1.27812</u>	<u>1.30659</u>

Based on the Company's foreign currency exposures noted above, varying the above foreign exchange rate to reflect a 10% strengthening of the Canadian dollar would have increased the net gain by \$16,400 (2019 – \$9,524), assuming all other variables remained constant.

An assumed 10% weakening of the Canadian dollar would have had an equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

d) Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

# Innovotech Inc.

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The Company is exposed to nominal interest rate risk arising from fluctuations in interest rates on its cash balances. Accounts receivable and accounts payable and accrued liabilities bear no interest.

e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's financial liabilities consist of accounts payable and accrued liabilities which are due within one year of the balance sheet date. The Company's planned level of expenditures for 2021 does not exceed its committed sources of funds.

## 18 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.

	2020 \$	2019 \$
Canada	35,451	90,535
United States	1,016,582	709,817
Rest of world	141,348	185,873
	<u>1,193,381</u>	<u>986,225</u>

All of the Company's equipment is located in Canada.

## 19 Subsequent events

- a) On January 19, 2021 the Company received approval from the TSX Venture Exchange to acquire the right, but not the obligation, to earn a 60% undivided equity interest in Nou Life Sciences Inc. ("Nou Life") in return for completing an investment of \$100,000 in development expenses in Nou Life's patented skin treatment technology. The transaction allows the Company to take up to two years to evaluate the technology of Nou Life.

On February 23, 2021 the Company received approval from the TSX Venture Exchange to acquire a \$150,000 8% convertible loan agreement with CanBiocin Inc. ("CanBiocin"), by way of an assignment from Lonsdale Capital Corporation ("Lonsdale"). Innovotech will purchase all of Lonsdale's rights, title, and interest in and to the convertible loan, previously issued on April 13, 2020, with a \$150,000 principal amount outstanding and payable by CanBiocin. The convertible loan bears interest at 8% per annum, payable quarterly until April 13th, 2022 after which date principal is paid monthly in installments of \$3,125.00 together with interest calculated at 8% on the declining balance until the convertible loan is paid in full. At any time prior to April 15, 2025, the Company will have the option to convert the outstanding principal amount and interest outstanding under the convertible loan at a conversion price of \$1.25 per share of Canbiocin. The Company issued 625,000 common shares at a deemed price of \$0.24 per common share for a total deemed price of \$150,000.