

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Financial Condition and Results of Operations for the Three and Six Months Ended June 30th 2022 (As of August 16<sup>th</sup>, 2022)

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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*The following Management Discussion and Analysis (MD&A) of results of operations and financial position as of August 16<sup>TH</sup>, 2022, should be read in conjunction with the audited financial statements of Innovotech Inc. ("Innovotech", "we", or "the Company") for the year ended December 31<sup>ST</sup>, 2021, and the related notes thereto.*

*This MD&A is provided by management using information available up to August 16<sup>TH</sup>, 2022 unless otherwise stated. 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).*

## OVERVIEW

### OVERVIEW OF THE BUSINESS

Innovotech Inc. 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 (MBEC Assay® Kits). 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 businesses: contract research, and production and sale of the MBEC Assay® Kit.

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 experience that give it certain 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 tools tailored to testing client-specific medical devices.

Innovotech makes 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 for microbial biofilm formation as outlined above. The consistent revenues from global sales of the Kits help mitigate the volatility inherent in our contract research business. The association of the Kit with our contract research services contributes to Innovotech's marketing efforts.

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 Covid-19) to maintain and expand our clientele. Rising revenues in 2019 through 2021 indicate that this approach has been effective. Contributing to industry awareness of Innovotech's research capabilities is our publishing from time-to-time of Open Access research papers authored by Innovotech's staff either alone or in partnership with other science-based organizations. We continue our program of designing novel testing devices with which to enhance the effectiveness of our microbial biofilm contract research.

Innovotech has resumed research and development on its own account. The Company is also working on a patented procedure to link two well-known antioxidants for better subdermal delivery to be used in creams formulated for skin care and is furthering its work with silver as an anti-microbial agent.

Innovotech has invested in the shares of a probiotics manufacturer, CanBiocin Inc. The Company 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>, 2021, long-term tax pools of \$7,485,000 available to reduce future net income for tax purposes.

## PERFORMANCE AND RESULTS FOR THE THREE MONTHS ENDED JUNE 30<sup>TH</sup>, 2022 (Q2)

### SUMMARY

Second quarter revenue of \$259,584 declined sharply compared with Q2 2021 revenue of \$480,217, declining by \$220,633 or 46%. While disappointing and unexpected, the Company has seen such volatility before only to be followed by recovery later in the year (see Outlook, page 6).

Both product sales and contract research revenues declined. Sales of products were down by 37% from \$95,276 to \$60,377, while contract research service fees declined by 47% to \$199,207 from \$379,499.

Consequent mainly on the lower quarterly revenues, the 2022 second quarter saw Innovotech incur a loss of \$62,507 compared to a profit \$163,690 in the prior year period. However, the loss also reflected deferred revenue of \$88,849, and \$39,302 of expensed research and development in connection with linking of the antioxidants comprising the Nou Life Sciences earn-in agreement relating to skin products.

### Q2 FINANCIAL RESULTS OF OPERATIONS TO JUNE 30<sup>TH</sup>, 2022

General and administrative expenses were largely unchanged from Q2 in the prior year but, as a percentage of revenues, those costs increased to 80% from 43% in the prior year due to the decline in revenues in the current period. The combination of lower revenues with slightly higher costs provided for a net loss in Q2 of \$62,507 vs. a net profit of \$163,690 in Q2 of 2021.

### REVENUE & GROSS PROFIT

Period	Q2 2022	Q2 2021
Contract research fees	199,207	379,499
Product sales	60,377	92,576
Other revenue	-	-
<b>Gross revenue</b>	<b>259,584</b>	<b>480,217</b>
Cost of sales	78,255	94,954
<b>Gross profit</b>	<b>181,329</b>	<b>385,263</b>

### OPERATING EXPENSES & NET INCOME

Period	Q2 2022	Q2 2021
General & administrative	207,563	206,684
Sales & marketing	258	15,139
Research & development (R&D)	39,302	4,255
<b>Operating expenses</b>	<b>247,563</b>	<b>226,078</b>
Interest expense	1,416	
Interest income	(4,703)	(4,505)
<b>Net income</b>	<b>(62,507)</b>	<b>163,690</b>

## PERFORMANCE AND RESULTS FOR THE SIX MONTHS ENDED JUNE 30<sup>TH</sup>, 2022 (H1)

### SUMMARY

Innovotech's first six months of the 2022 year continued in the same vein established in Q1 of the year: lower revenues with modestly increased operating expenses. In addition to revenue of \$88,849 deferred to the third quarter, higher research and development expenses of \$45,796 vs \$9,117 in the prior year H1 contributed to the current H1 net loss of \$94,794. To meet our anticipated sales volumes, we invested in increasing our capacity with additional staff, lab space and equipment in our strong 2021 fiscal year. The resulting incremental expenses, although contributing to our 2022 H1 net loss, enable us to grow forward and meet expected demand (see Outlook, page 6).

### REVENUE & GROSS PROFIT

<b>Period</b>	<b>H1 2022</b>	<b>H1 2021</b>
Contract research fees	393,389	593,749
Product sales	126,606	178,612
Other revenue	16,237	16,431
<b>Gross revenue</b>	<b>536,232</b>	<b>788,792</b>
Cost of sales	169,523	175,628
<b>Gross profit</b>	<b>366,709</b>	<b>613,164</b>

### OPERATING EXPENSES & NET INCOME

<b>Period</b>	<b>H1 2022</b>	<b>H1 2021</b>
General & administrative	420,643	406,734
Sales & marketing	337	17,974
Research & development (R&D)	45,796	9,117
<b>Operating expenses</b>	<b>466,776</b>	<b>433,825</b>
Interest expense	3,146	-
Interest income	(8,419)	6,586
<b>Net income</b>	<b>(94,794)</b>	<b>185,925</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 due to Innovotech 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	H1 2022	H1 2021
Net income	(94,794)	185,925
Depreciation and amortization	55,359	8,942
Non-cash interest expense (income)	3,146	-
Non-cash Interest income	(2,533)	(2,212)
Share-based compensation	-	15,193
Term loan forgiveness	-	-
<b>EBITDAS</b>	<b>(38,822)</b>	<b>207,848</b>

## ASSETS, LIABILITIES & SHAREHOLDERS' EQUITY

During the six months to June 30<sup>th</sup>, working capital decreased from \$774,521 at December 31<sup>st</sup>, 2021 to \$739,345 reflecting the loss of \$97,794 during the period. A continued reduction in accounts receivable resulted in an increase in the Company's cash to \$646,679. Current assets include listed, marketable securities of \$54,957 as of August 15<sup>th</sup>, 2022 as outlined in the Liquidity & Capital Resources review, below.

Current liabilities decreased to \$187,563 from \$219,009. A principal component of the Company's current liabilities was deferred revenue of \$88,849.

Shareholders' equity decreased to \$1,082,136 from \$1,176,930 in line with the loss incurred in the first six months of the 2022 fiscal year as tabled below.

Period	June 30 <sup>th</sup> , 2022	Dec. 31 <sup>st</sup> , 2021
Current assets	926,908	993,530
Equipment	188,289	229,443
Investment	210,000	210,000
<b>Total assets</b>	<b>1,325,197</b>	<b>1,432,973</b>
Current liabilities	187,563	219,009
Lease liabilities	55,498	37,034
<b>Total liabilities</b>	<b>243,061</b>	<b>256,043</b>
<b>Shareholders' equity</b>	<b>1,082,136</b>	<b>1,176,930</b>

## LIQUIDITY & CAPITAL RESOURCES

The Company continued to maintain a strong balance sheet having cash of \$646,679, marketable securities in the amount of \$54,957 in the form of TSX listed debentures, an investment in CanBiocin Inc valued at \$210,000 and no debt. The marketable securities are listed below.

Amount (\$)	Debenture	Maturity	Price	Annual Income (\$)
25,000	Rogers Sugar 5%	31 Dec, 2024	98.750	1,250
30,000	Slate Office REIT 5.25%	28 Feb, 2023	99.90	1,575

The Company's working capital of \$739,345 is adequate to conduct its business and to meet its obligations in the ordinary course as they come due.

## OUTLOOK

While Innovotech's contract research business underperformed in the six months to June 30<sup>th</sup>, the Company does not expect that result to be indicative of the remaining two quarters of the 2022 year. Specifically, the Company expects third quarter revenues to return to levels seen in the better quarters of 2021, which are referenced in the Selected Quarterly Financial Information, below.

Innovotech reminds shareholders that there is volatility inherent in our contract research work. This volatility is evident in the comparative quarterly tables provided. While the Company has many clients for its products and its contract research, the latter business is dominated by several very large medical companies. To a considerable degree, our volume of contract research business is dependent on the cadence of the needs of these clients for third party testing of their products under development. It is for this reason that the Company's revenue trend can vary materially on a quarterly basis.

The Company's renewed research and product development initiatives have generated close collaboration with clients that supports the development of new testing devices and protocols. Innovotech is also seeing increasingly active collaboration with potential partners on varied applications for InnovoSIL™-1 antimicrobial silver building on material transfer and feasibility agreements. The Company continues to be optimistic about advancing the collaboration stage toward the partnership stage with one or more potential partners.

The Company intends to maintain its focus on growing its business and revenues by being alert to opportunities to expand the business through acquisition and investment in staff, equipment, and outside opportunities. Innovotech's liquid balance sheet provides optionality in that regard.

## SELECTED QUARTERLY FINANCIAL INFORMATION

2022	Q2, 2022	Q1, 2022
		\$
Gross revenue	259,584	276,648
<b>Net income (loss)</b>	<b>(62,507)</b>	<b>(32,287)</b>
<b>Income (loss) per share</b>	<b>(0.00)</b>	<b>(0.000)</b>
Assets	1,325,197	1,337,317
Liabilities	243,061	192,674
Shareholder's equity	1,082,136	1,144,643

2021	Q4, 2021	Q3, 2021	Q2, 2021	Q1, 2021
	\$	\$	\$	\$
Gross revenue	456,218	236,757	480,217	308,575
<b>Net income (loss)</b>	<b>202,677</b>	<b>(21,472)</b>	<b>163,690</b>	<b>22,235</b>
<b>Income (loss) per share</b>	<b>0.005</b>	<b>(0.0005)</b>	<b>0.004</b>	<b>0.0006</b>
Assets	1,432,973	1,110,466	1,081,367	964,144
Liabilities	256,043	167,092	116,520	178,181
Shareholder's equity	1,176,930	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)

## INVESTMENT IN CANBIOCIN INC

Innovotech owns an investment comprised of 120,000 shares of CanBiotic Inc, an Edmonton probiotics company successfully targeting improved health outcomes for companion animals and livestock.

CanBiotic was a spin-off from the University of Alberta, and first commercialized Micocin®, a probiotic metabolite used to inhibit the growth of *Listeria monocytogenes* in processed meat products. CanBiotic receives annual royalties on sales of Micocin®. In 2016, CanBiotic turned its R & D focus toward its current probiotics business. In 2018 it began to commercialize its probiotics. CanBiotic is now 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. CanBiotic's premium canine probiotics, other companion animal probiotic lines, and avian and animal livestock probiotics help owners to care for their pets and help global feed companies to fulfill their customers' needs. CanBiotic has a rapidly growing list of customers both in North America and internationally, and can be found online at [www.canbiocin.ca](http://www.canbiocin.ca)



As noted in previous MD&A reports, Innovotech has recorded an increase in the fair market valuation of its CanBiocin investment in recognition of its high growth rate and recent \$1.75 share financing and now carries the 120,000 CanBiocin shares at a FMV of \$1.75 per share. We are optimistic in regard to the future value of this investment.

### **INVESTMENT IN 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 February 2023 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 to generate subdermal antioxidant activity that promotes 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 is seeking to confirm that they improve function in skin treatment sufficiently to encourage their use in nutraceutical and cosmetic applications. Innovotech also is investigating 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 has developed linked molecules using a contract chemistry laboratory in Edmonton. Work is now focused on characterizing the links and ensuring which linked products are stable and most compatible with the intended use of the end product. The Company has commissioned third-party studies in that regard.

The nature of the Nou Life transaction enables the Company to control the pace and extent of its investment in a manner that reduces the inherent risk in developing new technology. As of the date of this MD&A, we have incurred additional costs of \$33,075 in R&D in respect of the Nou Life agreement, which appear as expensed R&D costs in the 2022 H1 financial statements.

### **CONTRACTUAL OBLIGATIONS**

The Company has no contractual obligations.

### **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**

The Company had 1,845,000 incentive stock options issued at December 31<sup>st</sup>, 2021. As of the date of this MD&A, 15,000 have become forfeit, reducing the outstanding stock options to 1,830,000.

## GEOGRAPHIC SALES INFORMATION

	Three-month period ended		Six-month period ended	
	June 30th 2022	June 30th 2021	June 30 <sup>th</sup> 2022	June 30 <sup>th</sup> 2021
	\$	\$	\$	\$
Canada	5,675	24,525	25,545	49,565
United States	223,035	418,710	432,145	651,851
Rest of World	30,873	36,982	78,542	87,376
	<b>259,583</b>	<b>480,217</b>	<b>536,232</b>	<b>788,792</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 attempting 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.

### 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 2022 operational expenditures do not exceed its committed sources of funds and are manageable against the Company's expected revenues and expenses. As of June 30<sup>th</sup>, 2022, our

current assets were \$926,908 and our current liabilities were \$187,563 providing a working capital balance of \$739,345.

## **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.

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, 2021.

**End.**