

# **Innovotech Inc.**

Financial Statements  
**December 31, 2022 and 2021**  
(Expressed in Canadian Dollar)

# Innovotech Inc.

## Statement of Financial Position

As at December 31, 2022 and 2021

(Expressed in Canadian Dollar)

	2022 \$	2021 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	469,068	422,419
Marketable securities (note 5)	81,643	72,199
Trade and other receivables (note 6)	197,758	368,931
Inventory (note 7)	42,152	59,779
Unbilled revenue	-	13,887
Prepaid expenses	35,380	56,315
	<hr/>	<hr/>
	826,001	993,530
<b>Property and equipment</b> (note 8)	186,802	229,443
<b>Investment</b> (note 9)	210,000	-
<b>Convertible debenture</b> (note 9)	-	210,000
	<hr/>	<hr/>
	1,222,803	1,432,973
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<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	118,044	105,241
Deferred revenue	10,217	28,565
Current portion of lease liability (note 10)	37,034	85,203
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	165,295	219,009
<b>Lease liability</b> (note 10)	-	37,034
	<hr/>	<hr/>
	165,295	256,043
	<hr/>	<hr/>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 11(a))	7,695,237	7,695,237
<b>Warrants</b> (note 11(b))	159,543	159,543
<b>Contributed surplus</b>	1,594,737	1,577,648
<b>Deficit</b>	(8,392,009)	(8,255,498)
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	1,057,508	1,176,930
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	1,222,803	1,432,973
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<b>Nature of operations</b> (note 1)		

### Approved by the Board of Directors

\_\_\_\_\_  
(Signed) "Alan Savage" Director

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(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, 2022 and 2021

(Expressed in Canadian Dollar)

	Share capital \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
<b>Balance – January 1, 2022</b>	7,695,237	159,543	1,577,648	(8,255,498)	1,176,930
Net and comprehensive income for the year	-	-	-	(136,511)	(136,511)
Share based compensation (note 11(c))	-	-	17,089	-	17,089
<b>Balance – December 31, 2022</b>	<u>7,695,237</u>	<u>159,543</u>	<u>1,594,737</u>	<u>(8,392,009)</u>	<u>1,057,508</u>
<b>Balance – January 1, 2021</b>	7,576,487	159,543	1,531,576	(8,622,628)	644,978
Net and comprehensive loss for the year	-	-	-	367,130	367,130
Shares issued to acquire convertible debenture (note 11(a))	118,750	-	-	-	118,750
Share based compensation (note 11(c))	-	-	46,072	-	46,072
<b>Balance – December 31, 2021</b>	<u>7,695,237</u>	<u>159,543</u>	<u>1,577,648</u>	<u>(8,255,498)</u>	<u>1,176,930</u>

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, 2022 and 2021

(Expressed in Canadian Dollar)

	2022	2021
	\$	\$
<b>Revenue</b> (note 19)		
Contract research fees	890,324	1,129,261
Product sales	219,252	319,905
Other revenue	16,237	32,601
	<u>1,125,813</u>	<u>1,481,767</u>
<b>Cost of sales</b> (note 13)		
Contract research	220,148	255,201
Product sales	126,156	107,952
	<u>346,304</u>	<u>363,153</u>
<b>Gross profit</b>	<u>779,509</u>	<u>1,118,614</u>
<b>Operating expenses</b> (note 13)		
General and administrative	830,608	813,714
Sales and marketing	1,912	2,060
Research and development	110,980	34,888
Grants (note 14)	(23,542)	-
	<u>919,958</u>	<u>850,662</u>
Interest expense (note 10)	(5,016)	(4,383)
Interest income	8,954	17,566
Gain on fair value adjustment of convertible debenture (note 9)	-	85,995
	<u>(136,511)</u>	<u>367,130</u>
<b>Net income (loss) and comprehensive income (loss) for the year</b>	<u>(136,511)</u>	<u>367,130</u>
	\$	\$
<b>Basic and diluted income (loss) per common share</b> (note 11(d))	(0.00)	0.01
	#	#
<b>Weighted average number of common shares outstanding for the year</b> (note 11(d))	<u>38,909,612</u>	<u>38,818,859</u>

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

# Innovotech Inc.

## Statement of Cash Flows

For the years ended December 31, 2022 and 2021

(Expressed in Canadian Dollar)

	2022	2021
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the year	(136,511)	367,130
Adjustments for:		
Depreciation	114,165	70,895
Interest expense (note 10)	5,016	4,383
Interest income (note 9 and 16)	-	(7,852)
Gain on fair value adjustment to convertible debenture	-	(85,995)
Stock-based compensation (note 11(c))	17,089	46,072
	(241)	394,633
Net change in non-cash working capital items (note 16)	208,633	(369,589)
	208,392	25,044
<b>Investing activities</b>		
Purchase of property and equipment (note 8)	(71,524)	(60,140)
	(71,524)	(60,140)
<b>Financing activities</b>		
Term loan repaid	-	(20,000)
Lease liability repaid (note 10)	(90,219)	(52,629)
	(90,219)	(72,629)
<b>Increase (decrease) in cash and cash equivalents</b>	46,649	(107,725)
<b>Cash and cash equivalents – Beginning of year</b>	422,419	530,144
<b>Cash and cash equivalents – End of year</b>	469,068	422,419

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

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollar)

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### 1 Nature of operations and use of the going concern assumption

Innovotech Inc. (the Company) is incorporated under the Business Corporation Act of Alberta. The primary activities of the Company are sales of its products, conducting contract research for outside customers and research and development to identify products for future commercialization. The Company's product is an assay used in growing microbial biofilms for research purposes. The Company is publicly traded and listed on the TSX Venture Exchange, and its registered office is in Edmonton, Alberta.

These financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations for the foreseeable future.

### 2 Basis of preparation

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 25, 2023.

### 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.

c) Inventory

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) Property and Equipment

Property and 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.

# Innovotech Inc.

## Notes to Financial Statements

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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. See note 3(p) for the right-of-use asset accounting policy.

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

Property and equipment and intangible assets are 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.

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.

# Innovotech Inc.

## Notes to Financial Statements

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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 value determined using the Black-Sholes 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



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## Notes to Financial Statements

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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.

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## Notes to Financial Statements

December 31, 2022 and 2021

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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, communicative 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 (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) 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, 2022 and 2021**

(Expressed in Canadian Dollar)

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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 property and 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.

### Fair value of convertible debenture and investment

Determining the fair value of the convertible debenture requires judgment. Management has estimated the fair value of the convertible debenture on December 31, 2021, by determining its implied value with reference to a recently completed private placement of the underlying equity. During the year-ended December 31, 2022 the Company exercised the conversion option and received common shares in a privately held company. See Note 9 for further details. Any changes in the estimates utilized to determine fair value could result in a significant change to net and comprehensive income.

### 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

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollar)

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.

### 5 Marketable securities

Included in marketable securities are publicly traded convertible debentures classified as FVTPL. As at December 31, 2022, the estimated fair value of the marketable securities was \$81,643 (2021 - \$72,199). During the years ended December 31, 2022 and 2021, there were no fair value adjustments included in net income.

### 6 Trade and other receivables

	2022	2021
	\$	\$
Trade receivables net of allowance for doubtful accounts	184,946	358,303
Interest receivable	-	2,597
Goods and services tax recoverable	12,812	8,031
	<u>197,758</u>	<u>368,931</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 (2021 – \$nil).

The ageing of receivables is as follows:

	2022	2021
	\$	\$
Neither past due nor impaired	182,889	188,513
Up to 3 months past due	14,869	180,418
	<u>197,758</u>	<u>368,931</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:

	2022	2021
	\$	\$
Customer #1	476,642	614,807
Customer #2	177,810	306,869

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollar)

### 7 Inventory

The cost of inventories recognized as expense and included in cost of sales was \$203,935 (2021– \$210,389). Included in cost of sales is \$nil (2021 – \$nil) to write-down expired inventories to net realizable value.

### 8 Property and equipment

	<b>Laboratory equipment</b>	<b>Computer equipment</b>	<b>Office equipment</b>	<b>Right-of-use assets</b>	<b>2022 Total</b>
<b>Cost</b>					
Balance – January 1, 2022	390,166	98,158	14,801	170,483	673,608
Additions	66,058	5,466	-	-	71,524
Balance – December 31, 2022	456,224	103,624	14,801	170,483	745,132
<b>Accumulated depreciation</b>					
Balance – January 1, 2022	296,811	83,713	13,917	49,724	444,165
Depreciation	23,105	5,641	177	85,242	114,165
Balance – December 31, 2022	319,916	89,354	14,094	134,966	558,330
<b>Net book value – December 31, 2022</b>	<b>136,308</b>	<b>14,270</b>	<b>707</b>	<b>35,517</b>	<b>186,802</b>

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollar)

	Laboratory equipment	Computer equipment	Office equipment	Right-of-use assets	2021 Total
<b>Cost</b>					
Balance – January 1, 2021	346,628	93,556	14,801	-	454,985
Additions	55,538	4,602	-	170,483	230,623
Disposal	(12,000)	-	-	-	(12,000)
Balance – December 31, 2021	390,166	98,158	14,801	170,483	673,608
<b>Accumulated depreciation</b>					
Balance – January 1, 2021	293,219	78,355	13,696	-	385,270
Disposal	(12,000)	-	-	-	(12,000)
Depreciation	15,592	5,358	221	49,724	70,895
Balance – December 31, 2021	296,811	83,713	13,917	49,724	444,165
<b>Net book value – December 31, 2021</b>	93,355	14,445	884	120,759	229,443

Right-of-use assets consists of leased buildings for office and laboratory space. Depreciation on right-of-use assets is included in general and administrative expenses. Depreciation on the remaining property and equipment of \$23,106 (2021 – \$15,592) is included in cost of sales and \$5,817 (2021 – \$5,579) in general and administrative expenses.

## 9 Investment

On February 19, 2021 the Company acquired a \$150,000 8% convertible debenture agreement with CanBiocin Inc. (“CanBiocin”), by way of an assignment from Lonsdale Capital Corporation (“Lonsdale”). Innovotech purchased 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 debenture was classified as FVTPL, bore interest at 8% per annum, payable quarterly until April 13th, 2022 after which date principal was payable monthly in installments of \$3,125 together with interest calculated at 8% on the declining balance until the convertible debenture was paid in full. At any time prior to April 15, 2025, the Company had 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 closing price of \$0.19 per share on February 19, 2021 for a total of \$118,750. Interest income of \$3,789 (2021 – \$5,255) was recognized during the year. During the year-ended December 31, 2021 CanBiocin completed a private placement at a subscription rate of \$1.75 per share. The Company therefore recognized a gain on the fair value of the convertible debenture of \$85,995 to increase the fair value of the debenture to \$210,000 at December 31, 2021. On April 14, 2022 the Company exercised the conversion option and received 120,000 common shares of CanBiocin.

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### 10 Lease liability

Maturity analysis of the contractual undiscounted cash flows

	<b>2022</b>
Less than one year	37,592
One to five years	-
More than five years	-
Total undiscounted lease liabilities at December 31	<u>37,592</u>
Lease liability included in the statement of financial position at December 31	
Current	37,034
Non-current	-
	<u>37,034</u>

The Company recognized \$5,016 (2021 – \$4,383) in interest expense on lease liabilities and \$2,890 (2021 – \$2,060) in general and administrative expenses on low value assets. The Company also recognized \$90,219 (2021 – \$52,629) as repayments on the lease liability in the statement of cash flows.

### 11 Share capital

#### a) Authorized

Unlimited number of Class A common, voting shares

Issued and outstanding

	<u>2022</u>		<u>2021</u>	
	#	\$	#	\$
Opening balance at January 1	38,909,612	7,695,237	38,284,612	7,576,487
Shares issued to acquire convertible debenture	-	-	625,000	118,750
Closing balance	<u>38,909,612</u>	<u>7,695,237</u>	<u>38,909,612</u>	<u>7,695,237</u>

#### 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 \$8,879 resulted in net proceeds of \$366,122 of which \$159,543 were attributed to warrants.

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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 \$17,089 for the year ended December 31, 2022 (2021 – \$46,072).

### **2022 transactions**

On October 11, 2022, the Company granted to directors 125,000 stock options at an exercise price of \$0.16 with an expiry date of October 11, 2027. These stock options vest immediately. The estimated fair value of these options is \$0.1367 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	125.99%
Risk-free interest rate	3.48%
Expected life of options	5 years



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### 2021 transactions

On April 22, 2021, the Company granted to certain employees 115,000 stock options at an exercise price of \$0.14 with an expiry date of April 22, 2026. These stock options vest immediately. The estimated fair value of these options is \$0.1321 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	169.21%
Risk-free interest rate	1.52%
Expected life of options	5 years

On October 12, 2021, the Company granted to directors 175,000 stock options at an exercise price of \$0.20 with an expiry date of October 12, 2026. These stock options vest immediately. The estimated fair value of these options is \$0.1764 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	160.69%
Risk-free interest rate	1.62%
Expected life of options	5 years

	<b>2022</b>		<b>2021</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	1,825,000	0.15	2,186,000	0.16
Granted	125,000	0.16	290,000	0.18
Expired	(145,000)	0.38	(20,000)	0.52
Forfeited	(248,000)	0.14	(651,000)	.18
Outstanding – End of year	<b>1,557,000</b>	<b>0.13</b>	<b>1,825,000</b>	<b>0.15</b>
Exercisable – End of year	<b>1,557,000</b>	<b>0.13</b>	<b>1,825,000</b>	<b>0.15</b>

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollar)

					<b>2022</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</b>	<b>Number of shares</b>				
<b>\$</b>	<b>\$</b>	<b>#</b>	<b>(years)</b>	<b>#</b>				
\$0.05 to \$0.10	0.08	743,000	1.01	743,000				
\$0.11 to \$0.20	0.16	545,000	1.33	545,000				
\$0.21 to \$0.45	0.22	269,000	0.41	269,000				
					0.13	1,557,000	2.75	1,557,000

  

					<b>2021</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</b>	<b>Number of shares</b>				
<b>\$</b>	<b>\$</b>	<b>#</b>	<b>(years)</b>	<b>#</b>				
\$0.05 to \$0.10	0.08	841,000	1.45	841,000				
\$0.11 to \$0.20	0.16	525,000	1.31	525,000				
\$0.21 to \$0.45	0.27	459,000	0.62	459,000				
					0.14	1,825,000	3.39	1,825,000

d) Income/(loss) per share

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
	<b>\$</b>	<b>\$</b>
<b>Calculation of basic income per share</b>		
Net income	(136,511)	367,130
Weighted average number of common shares	38,909,612	38,284,612
Weighted average number of common shares issued during the year	-	534,247
	38,909,612	38,818,859
Basic income/(loss) per share	(0.00)	0.01

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollar)

	December 31, 2022 \$	December 31, 2021 \$
<b>Calculation of diluted income per share</b>		
Adjusted net income	(136,511)	367,130
Weighted average number of common shares from basic income per share	38,909,612	38,818,859
Effect of dilution from: Share options	552,838	473,945
	39,462,450	39,292,804
Diluted income/(loss) per share	(0.00)	0.01

## 12 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:

	2022 \$	2021 \$
<b>Income (loss) before income taxes</b>	(136,511)	367,130
Tax calculated at applicable statutory tax rates applicable to profit	(37,000)	99,000
Tax effects of: Tax losses and other items for which no deferred income tax asset was recognized	37,000	(99,000)
Adjustment in respect to prior years	-	-
<b>Tax charge</b>	-	-

The statutory tax rate was 27% (2021 – 27%).

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollar)

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b) Deferred income tax

The Company's deductible temporary differences include the following:

	2022	2021
	\$	\$
Share issue costs	4,000	5,000
Equipment and licenses	1,011,000	982,000
Lease liabilities and Right of Use asset (net)	2,000	1,000
Non-capital losses	2,716,000	2,718,000
SR&ED expenditure pool	3,341,000	3,341,000
	<hr/>	<hr/>
	7,074,000	7,047,000

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 \$1,909,000 (2021 – \$1,902,000) in respect of deductible temporary differences amounting to \$7,074,000 (2021 – \$7,47,000) that can be carried forward against future taxable income. Included in these deductible temporary differences are non-capital losses of \$2,716,000 (2021 – \$2,718,000) 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 \$3,341,000 (2021 – \$3,341,000) that can be carried forward to use against future net income for tax purposes. These SR&ED pool expenditures do not expire.

The Company did not recognize the benefits of non-refundable research and development tax credits amounting to \$967,000 (2021 – \$967,000). These tax credits can be carried forward against future federal income tax payable.

# Innovotech Inc.

## Notes to Financial Statements

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(Expressed in Canadian Dollar)

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

	Non-capital loss carry- forwards \$	Federal investment tax credits \$
2025	-	29,000
2026	-	32,000
2027	-	52,000
2028	-	158,000
2029	147,000	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	-	33,000
2036	-	16,000
2037	75,000	7,000
2038	76,000	15,000
2039	15,000	4,000
2040	-	13,000
	<u>2,716,000</u>	<u>967,000</u>

### 13 Expenses by nature

	2022 \$	2021 \$
Employee compensation		
Salaries and wages	688,245	592,231
Share-based payments	17,089	46,072
Short-term benefits	6,248	5,340
	<u>711,582</u>	<u>643,643</u>
Depreciation	114,165	70,894
Professional and consulting fees	132,604	138,385
Rent and maintenance	27,766	63,395
Materials and supplies	235,461	226,477
Insurance	14,160	12,535
Patent costs	-	(1,079)
Other	54,066	59,565
Less: Grants and tax credits	<u>(23,542)</u>	<u>-</u>
Total cost of sales and operating expenses	<u>1,266,262</u>	<u>1,213,815</u>

# Innovotech Inc.

## Notes to Financial Statements

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(Expressed in Canadian Dollar)

### 14 Grants

The Company qualified for the Innovation Employment Grant (“IEG”) in 2021 with respect to qualifying research and development expenditures incurred in 2021. The total amount of IEG received and recognized were \$23,542 (2021 – \$nil), which were recorded as grants.

### 15 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	2022 \$	2021 \$
David Tam, Parlee McLaws LLP	Corporate Secretary and Legal Counsel, Director	Professional fees	27,084	32,669
Bernard Grobbelaar	Chief Financial Officer, Director	Professional fees	55,775	57,650
Dr. James Timourian	Chief Executive Officer, President	Professional fees	17,437	18,000
Craig Milne	Chief Business Development Officer	Professional fees	-	6,000

At December 31, 2022, \$12,255 (2021 – \$999) remained outstanding and is included in accounts payable and accrued liabilities. 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:

	2022 \$	2021 \$
Salaries and short-term employee benefits	230,584	118,734
Termination benefit	-	-
Share based payments	17,089	46,072
	<u>247,673</u>	<u>164,806</u>

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollar)

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

	2022	2021
	\$	\$
Marketable securities	(9,444)	(52,199)
Trade and other receivables	171,173	(225,417)
Inventory	17,627	(20,899)
Unbilled revenue	13,887	(13,887)
Prepaid expenses	20,935	(36,128)
Accounts payable and accrued liabilities	12,803	(6,541)
Deferred revenue	(18,348)	(17,115)
	<hr/>	<hr/>
	208,633	(372,186)
Less: accrued interest income included in trade and other receivables	-	2,597
	<hr/>	<hr/>
	208,633	(369,589)

### 17 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, 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.

### 18 Financial instruments

Financial instruments consist of recorded amounts of cash and cash equivalents, trade and other receivable, and accounts payable and accrued liabilities.

# Innovotech Inc.

## Notes to Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollar)

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a) Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: fair value through profit or loss (“FVTPL”); amortized cost; fair value through other comprehensive income (“FVOCI”). The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instrument	Category	2022 \$	2021 \$
Cash and cash equivalents	FVTPL	469,068	422,419
Marketable securities	FVTPL	81,643	72,199
Trade and other receivables	Amortized cost	197,758	368,931
Investment	FVTPL	210,000	-
Convertible debenture	FVTPL	-	210,000
Accounts payable and accrued liabilities	Amortized cost	(118,044)	(105,241)

The Company’s financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for trade and other receivables and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The Company’s fair value of cash and cash equivalents and marketable securities under the fair value hierarchy is measured using Level 1. The Company’s fair value of investments under the fair value hierarchy is measured using Level 3.

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 cash equivalents, and trade and other 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 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 6 for further details.



# Innovotech Inc.

## Notes to Financial Statements

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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 the majority 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 gain of \$8,014 in 2022 (2021 – loss of 11,669).

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

	2022	2021
	\$	\$
Cash and cash equivalents	9,464	58,026
Trade and other receivables	184,946	279,044
Accounts payable and accrued liabilities	(18,961)	(858)
	<hr/>	<hr/>
Net exposure	175,449	336,212
	<hr/>	<hr/>

The following exchange rates applied at December 31:

	2022	2021
	\$	\$
US\$ – CASH	1.35434	1.27789
	<hr/>	<hr/>

Based on the Company's foreign currency exposures noted in the table above, varying the above foreign exchange rate to reflect a 10% strengthening of the Canadian dollar would have resulted in a net loss of \$15,747 (2021 – increase net loss of \$42,964), 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.

## Notes to Financial Statements

December 31, 2022 and 2021

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The Company is exposed to nominal interest rate risk arising from fluctuations in interest rates on its cash and cash equivalents, and lease liability. Trade and other 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 2022 does not exceed its committed sources of funds.

### 19 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.

	2022	2021
	\$	\$
Canada	31,722	61,050
United States	957,788	1,243,581
Rest of world	136,303	177,136
	<hr/> 1,125,813	<hr/> 1,481,767

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