

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Financial Condition and Results of Operations for the Three months Ended March 31<sup>st</sup>, 2023 (as of May 23<sup>rd</sup>, 2023)

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, services 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; and 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 March 3<sup>rd</sup>, 2023, should be read in conjunction with the audited financial statements of Innovotech Inc. ("Innovotech", "we", or "the Company") for the year ended December 31, 2022, and the related notes thereto.*

*This MD&A is provided by management using information available up to May 23<sup>rd</sup>, 2023. 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 OF THE BUSINESS

Innovotech Inc. was incorporated in 2001 under the Business Corporations Act of Alberta. The activities of the Company are sales of its products, contract research conducted for outside clients and research and development (R&D) 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™ family) 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® Kits. 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 over twenty years of experience that give it certain proprietary advantages and efficiencies. Innovotech is accredited by CALA (Canadian Association for Laboratory Accreditation Inc.) to ISO/IEC 17025 (testing accreditation number A4146 for Enumerating Bacteria – Solids and Enumerating Bacteria – Liquid).” The Company designs and builds devices tailored to testing client-specific types of medical devices.

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

The Company has pursued new contract research business by direct contact using e-mail and telephone communication supported by personal visits and conference attendances (paused during COVID-19) to maintain and expand the Company's clientele. Contributing to industry awareness of Innovotech's research capabilities is the Company's 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.

Innovotech has resumed and is increasing research and development for its own account, including expanding its testing expertise. Principally, however, it is advancing its work with silver as an anti-microbial agent. Among other initiatives, the Company is working on a patented procedure to link two well-known antioxidants for better subdermal delivery in application of creams formulated for skin care.

Innovotech continues to be alert for participation in related business activities and new internal R&D targets while looking for opportunities to diversify its business, extend its reach, and increase its revenues through corporate acquisition. This strategy is supported by the Company's December 31<sup>st</sup>, 2022, long-term tax pools of \$7,074,000 which are available to reduce future net income for tax purposes.

### 3 MONTH PERFORMANCE TO MARCH 31<sup>ST</sup>, 2023 (Q1)

#### SUMMARY OF RESULTS:

Contract research fees declined 6.1% in Q1 to \$182,269 from \$194,182 in Q1 of the prior year. Product sales rose 10.9% to \$73,423 from \$66,229. There was no “other revenue” in the quarter due to the termination of a collaboration agreement in the prior year. Low revenues were the principal cause of the net loss of \$83,005 for the quarter versus a loss of \$32,287 in Q1 of the prior year.

Expensed R&D investment of \$23,951 and increased sales and marketing expenses of \$7,622 were factors in the negative results. General and administrative expenditures were little changed and follow on cost-of-living increases provided to staff during the 2022 year.

### 3 MONTH FINANCIAL RESULTS OF OPERATIONS TO MARCH 31<sup>ST</sup>, 2023 (Q1)

#### REVENUE & GROSS PROFIT

| <b>Period</b>          | <b>Q1 2023</b> | <b>Q1 2022</b> |
|------------------------|----------------|----------------|
| Contract research fees | 182,269        | 194,182        |
| Product sales          | 73,423         | 66,229         |
| Other revenue          | -              | 16,237         |
| <b>Gross revenue</b>   | <b>255,692</b> | <b>276,648</b> |
| Cost of sales          | 87,888         | 91,268         |
| <b>Gross profit</b>    | <b>167,804</b> | <b>185,380</b> |
| Gross profit %         | 66%            | 67%            |

#### OPERATING EXPENSES & NET INCOME

| <b>Period</b>                                   | <b>Q1 2023</b>  | <b>Q1 2022</b>  |
|---|-----------------|-----------------|
| General & administrative                        | 220,381         | 213,080         |
| Sales & marketing                               | 7,622           | 79              |
| Research & development (including amortization) | 23,951          | 6,494           |
| <b>Operating expenses</b>                       | <b>251,954</b>  | <b>219,653</b>  |
| Interest (expense)                              | (445)           | (1,730)         |
| Interest income                                 | 1,590           | 3,716           |
| <b>Net income (loss)</b>                        | <b>(83,005)</b> | <b>(32,287)</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 virtually the same thing on account of presently 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                        | Q1 2023         | Q1 2022        |
|-------------------------------|-----------------|----------------|
| Earnings                      | (83,005)        | (32,287)       |
| <u>Before:</u>                |                 |                |
| Depreciation and amortization | 29,417          | 29,417         |
| Interest expense (income)     | 445             | 1,730          |
| Interest income               | (1,590)         | (3,716)        |
| <b>EBITDAS</b>                | <b>(54,733)</b> | <b>(4,856)</b> |

## ASSETS, LIABILITIES & SHAREHOLDERS' EQUITY

Shareholders' equity at March 31<sup>st</sup> declined by \$83,005 from \$1,057,508 on December 31<sup>st</sup> 2022 to \$974,503 consistent with the Q1 loss of the same amount. All liabilities are current in nature and total \$107,976. Current assets of \$703,939 provide working capital of \$595,963.

Long-term assets are comprised of an investment of 120,000 shares of CanBiotic Inc., and laboratory equipment at a depreciated cost of \$168,540

| Period                      | March 31 <sup>st</sup> , 2023 | Dec. 31 <sup>st</sup> , 2022 |
|-----------------------------|-------------------------------|------------------------------|
| Current assets              | 703,939                       | 826,001                      |
| Property & Equipment        | 168,540                       | 186,802                      |
| Convertible Debenture       | 210,000                       | 210,000                      |
| <b>Total assets</b>         | <b>1,082,479</b>              | <b>1,222,803</b>             |
| Current liabilities         | 107,976                       | 165,295                      |
| Long-term liabilities       | -                             | -                            |
| <b>Total liabilities</b>    | <b>107,976</b>                | <b>165,295</b>               |
| <b>Shareholders' equity</b> | <b>974,503</b>                | <b>1,057,508</b>             |

## LIQUIDITY & CAPITAL RESOURCES

The Company continues to maintain a liquid balance sheet with a cash position of \$394,452, trade and other receivables of \$152,085, no debt, and marketable securities in the amount of \$83,231 in the form of TSX listed debentures as outlined below.

| Amount (\$) | Debenture             | Maturity     | Price  | Annual Income (\$) |
|-------------|-----------------------|--------------|--------|--------------------|
| 25,000      | Exchange Income 5.25% | 15 Jan, 2029 | 101.20 | 1,312              |
| 25,000      | Rogers Sugar 5%       | 31 Dec, 2024 | 100.00 | 1,250              |
| 30,000      | Slate Office REIT 9%  | 28 Feb, 2026 | 91.00  | 2,700              |

Including the above, the Company had working capital of \$595,963, and as Innovotech has no formal debt, the Company is therefore presently funded to conduct its business and to meet its obligations in the ordinary course of business as they come due.

## OUTLOOK

As described in the discussion above under Results of Operations, Innovotech's revenues declined to a level of \$255,692 in Q1. However, as of the date of this MD&A, the Company has visibility on higher contract service revenues evidenced from signed, issued, and probable contract research protocols extending over Q2 and into Q3 of the current year.

Innovotech has retained a sales and marketing consultant to assist in developing a structured sales and marketing program, which it has begun to apply. Supporting this program, the Company is applying more of its R&D efforts toward increasing its contract research service offerings to clients. These product and service development initiatives will generate increasing costs in expensed R & D that will continue over the current year and into 2024 with a view to increasing future revenues. Please see Research and Development, below.

The Company notes that CanBiocin Inc., of which the Company owns 120,000 common voting shares, is well funded and is enjoying increased revenues and profitability in its 2023 first quarter from its focus on probiotics for animals.

The Company expects to close the Nou Life Sciences earn-in agreement described below in August of the current year. Innovotech expects to move toward permeability testing of the linked molecules in late 2023.

Innovotech's collaborations with prospective partners on new applications for InnovoSIL™-1 silver continue to move forward, although none have yet matured to a development agreement stage.

The Company continues to review opportunities to expand its business through acquisition and investment, is developing new contract research offerings and devices, and seeking productive partnerships in respect of InnovoSIL™-1 silver.

## SUBSEQUENT EVENTS

Through a note signed April 14<sup>th</sup>, 2023, and effective August 18<sup>th</sup>, 2022, Innovotech and Nou Life Sciences Inc. agreed to extend term of the Nou Life earn-in agreement to August 18<sup>th</sup>, 2023.

## SELECTED QUARTERLY FINANCIAL INFORMATION

| 2023                           | Q1, 2023        |
|--------------------------------|-----------------|
|                                | \$              |
| Gross revenue                  | 255,692         |
| <b>Net income (loss)</b>       | <b>(83,005)</b> |
| <b>Income (loss) per share</b> | <b>(0.00)</b>   |
| Assets                         | 1,082,479       |
| Liabilities                    | 107,976         |
| Shareholders' equity           | 974,503         |

| 2022                           | Q4, 2022        | Q3, 2022      | Q2, 2022        | Q1, 2022        |
|--------------------------------|-----------------|---------------|-----------------|-----------------|
|                                | \$              | \$            | \$              | \$              |
| Gross revenue                  | 249,054         | 340,527       | 259,584         | 276,648         |
| <b>Net income (loss)</b>       | <b>(83,409)</b> | <b>41,692</b> | <b>(62,507)</b> | <b>(32,287)</b> |
| <b>Income (loss) per share</b> | <b>(0.00)</b>   | <b>0.00</b>   | <b>(0.00)</b>   | <b>(0.00)</b>   |
| Assets                         | 1,222,803       | 1,258,489     | 1,325,197       | 1,337,317       |
| Liabilities                    | 165,295         | 134,661       | 243,061         | 192,674         |
| Shareholders' equity           | 1,057,508       | 1,123,828     | 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       |
| Shareholders' equity           | 1,176,930      | 943,374         | 964,847        | 785,963       |

## RESEARCH AND DEVELOPMENT

Innovotech has increased its R&D budget for the 2023 year as it steps up investment in developing new contract research services and advancing applications for its InnovoSIL™-1 silver antimicrobial.

In Q1, 2023, Innovotech continued its efforts directed towards the development and validation of additional customizable test methods that can be offered to its contract research clients, focusing chiefly on the development of anti-encrustation assays. Encrustation of mineral salts on urinary catheters results in either blockage of fluid flow, if it occurs on the interior of catheters, or irritation, if it occurs on the exterior of the catheter, necessitating replacement of the catheter in either situation. Encrustation is enhanced by the

presence of certain microorganisms, and therefore methods involving both sterile and inoculated test surfaces, using clinically relevant flow rates, were developed and improved, with a focus on optimizing and validating aeration, contamination prevention, and reproducible growth and recovery in a high-throughput test system using various device materials. This is a significant program with a goal of enabling the Company to offer encrustation testing at a level comparable to that offered for the BEST Assay™ system, with full validation for multiple species. Work will continue over the balance of the year targeting superior Company services offered in this field.

Other work included completion of the development of a clinically relevant continuous flow system for anti-adherence testing of internal catheter surfaces. As well, ongoing refinement of the Company's test method allowing for anti-adherence testing to be performed simultaneously on the internal and external surfaces of medical devices, such as catheters, was performed, focusing on an improved design allowing for appropriate test article dimensions. Other tests were performed as needed in order to develop custom platforms for specific clients.

Innovotech will continue the development and validation of clinically relevant methods that simulate skin conditions at catheter insertion sites, for testing catheter site draping and wound dressings having various physical properties, with the intention of adding a third variant of testing methods to its service offerings later this year.

The Company also continued working on a patented procedure to link two well-known antioxidants for better subdermal delivery in creams formulated for skin care. Work in Q1 2023 continued on modifying linkers and developing methods to link the two target molecules using those linkers. Breakthroughs were achieved in both product yield and stability.

In Q1, Innovotech continued testing related to InnovoSIL™-1 silver storage stability and scale-up of the manufacturing process using recently updated methods. Recently, Innovotech performed testing that demonstrated InnovoSIL™-1 silver has strong antimicrobial activity against *C. auris*, Methicillin-Resistant *Staphylococcus aureus* (MRSA), Vancomycin Resistant *Enterococcus faecalis* (VRE), Coagulase Negative *Staphylococcus epidermidis* (CONS), and *Acinetobacter baumannii* in a wound dressing model. The Company plans to run studies regarding hemocompatibility, sterilization stability, and a mechanism of action study. Innovotech also continued its support to collaborators in their progress towards inclusion of InnovoSIL™-1 silver in their product lines.

## **ABOUT CANBIOCIN INC.**

CanBiocin is 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. CanBiocin receives annual royalties on sales of Micocin®. In 2016, CanBiocin turned its R & D focus toward probiotics targeted at improving the health of companion animals. In 2018 it began to commercialize its probiotics. CanBiocin 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. As of the date of this MD&A, Innovotech holds 120,000 CanBiocin shares.

Today, CanBiocin's premium canine probiotics, other companion animal probiotic lines, and avian and animal livestock probiotics help owners to care for their pets and global feed companies to fill their customers'



needs. CanBiocin has a rapidly growing list of customers in both North America and internationally and can be found online at [www.canbiocin.ca](http://www.canbiocin.ca).

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

The Company has the right, but not the obligation, to earn a 60% interest in the issued capital of Nou Life Sciences Inc. by spending \$100,000 prior to an amended date of August 18<sup>th</sup>, 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 perform subdermal antioxidant activity toward a healthier skin. The objective of the earn-in Agreement is to confirm performance of the linked molecules toward a more effective antioxidant in skincare applications. Innovotech's research and testing of the linked molecules will seek to confirm that they improve function in skin treatment sufficiently to encourage their use in nutraceutical and cosmetic applications. Innovotech will also investigate the indicated extent of the molecule's skin penetration in anticipation of a positive effect on nerve cell reinvigoration for treatment of neuropathy.

The 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.

#### **CONTRACTUAL OBLIGATIONS**

None.

#### **SUMMARY OF INNOVOTECH SHARES ISSUED FROM TREASURY DURING 2022**

None.

#### **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**

Innovotech granted 125,000 director's stock options on October 11<sup>th</sup> 2022 exercisable at \$0.16 for a period of 5 years to October 11<sup>th</sup>, 2027. During the 2022 year, 393,000 stock options expired unexercised or were forfeited. The result of the issuance and expiry is that there are 1,557,000 incentive stock options outstanding as of March 31<sup>st</sup>, 2023.

## GEOGRAPHIC SALES INFORMATION

|               | Three-month period ended       |                                |
|---------------|--------------------------------|--------------------------------|
|               | March 31 <sup>st</sup><br>2023 | March 31 <sup>st</sup><br>2022 |
|               | \$                             | \$                             |
| Canada        | 7,420                          | 19,870                         |
| United States | 211,299                        | 209,110                        |
| Rest of World | 36,973                         | 47,669                         |
|               | <b>255,692</b>                 | <b>276,649</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 Canadian dollar 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 cash equivalents and trade and other receivables.

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. Innovotech does not insure its credit risks.

### LIQUIDITY RISK:

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

The Company manages accounts payable and accrued liabilities against trade and other receivables and carries a balance of cash and cash equivalents to accommodate that. Innovotech's planned 2023 operational expenditures do not exceed its committed sources of funds and are manageable against the Company's

expected revenues and expenses. As of March 31<sup>st</sup>, 2023, Innovotech's current assets were \$703,939, and its current liabilities were \$107,976. Working capital was therefore \$595,963.

## **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 property and 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 judgement, but are nonetheless subject to estimation risk.

Determining the fair value of stock options and warrants requires judgement 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.

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, 2022.

**End.**