

## MANAGEMENT'S DISCUSSION & ANALYSIS

Financial Condition and Results of Operations for the Three Months Ended 31 March 2024  
(as of 21 May 2024).

*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 31 March 2024, should be read in conjunction with the audited financial statements of Innovotech Inc. ("Innovotech", "we", or "the Company") for the year ended 31 December 2023, and the related notes thereto. This MD&A is provided by management using information available up to 21 May 2024. 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](http://www.innovotech).*

## 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 and services. 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. In August 2023, the Company acquired a 60% interest in Nou Life Sciences Inc., a company that owns intellectual property for linked anti-oxidant molecules common in skin care. Innovotech 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

The Company has three businesses: contract research, production and sale of MBEC Assay® Kits, and commercial development of InnovoSIL™ silver.

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 several 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 an active R&D program, primarily with the aim of securing commercial partners for InnovoSIL™ silver. The company is developing special manufacturing methods to produce the compound at commercial scale and purity, as well as continued studies on applications and methods of use. Partners are engaged in feasibility work using InnovoSIL™ silver and their products.

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 31 December 2023, long-term tax pools of \$7,325,000 which are available to reduce future net income for tax purposes.

## **Q1-2024 EVENTS**

In preparing for increased work capacity, the Company hired two new technical team members in January 2024, and worked with building management to outfit expanded laboratory space. Innovotech was awarded a non-repayable contribution from NRC-IRAP for \$75,000 to support new technical hires. The grant funding is paid on a reimbursement arrangement monthly for a portion of salaries dedicated to approved projects.

The Company attended the Pathways to Product Development Conference hosted in Washington, DC, engaging with key academic, industrial, and regulatory contacts in the marketplace.

## **PERFORMANCE IN THE QUARTER TO 31 MARCH 2024**

Contract research revenues generated in Q1-2024 were up by \$86,476 versus Q1-2023 offsetting a concomitant decline in product sales revenues by \$28,192 in the matched quarters, resulting in increased revenues overall in Q1-2024 to \$313,976. The increased contract research was driven by an influx of new clients while continuing to execute services work with long-term, existing clients.

The Company has been carrying higher G&A expenses with net new staff joining in Q1-2024. Grant income from the NRC-IRAP and recognized income from previously announced Alberta Innovates AICE funding supported a portion of research expenses incurred.

A resulting net loss of \$102,201 is up for the quarter over last year's loss of \$83,005.

## Three Month Financial Results to 31 March 2024 (Q1-24)

### Q1-24 Summary

#### Q1-24 Revenue & Gross Profit

Period	Q1-2024	Q1-2023	% change
Contract research fees	268,745	182,269	47.44%
Product Sales	45,231	73,423	38.40%
<b>Gross revenue</b>	<b>313,976</b>	<b>255,692</b>	<b>22.79%</b>
Cost of sales	93,819	87,888	6.75%
<b>Gross profit</b>	<b>220,157</b>	<b>167,804</b>	<b>31.20%</b>
Gross profit (%)	70.12%	65.63%	6.84%

#### Q4 Operating Expenses & Net Income

General & administrative	315,516	220,381	43.17%
Sales & marketing	7,242	7,622	4.99%
Research & development	21,186	23,951	11.54%
Grants	(15,171)	-	
<b>Operating Expenses</b>	<b>328,773</b>	<b>251,954</b>	<b>30.49%</b>
Fair value adjustment on financial instrument	4,412	-	
Interest expense	-	(445)	
Interest income	2,003	1,590	25.97%
<b>Net Income (Loss)</b>	<b>(102,201)</b>	<b>(83,005)</b>	<b>23.13%</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	Q1-2024	Q1-2023
Earnings	(102,201)	(32,287)
Before:		
Depreciation & amortization	14,292	29,417
Interest expense	-	1,730
Interest income	(2,003)	(3,716)
<b>EBITDAS</b>	<b>(89,912)</b>	<b>(4,856)</b>

## Assets, Liabilities & Shareholders' Equity

Shareholders' equity as at the end of Q1-2024 declined by \$101,001 from \$998,599 on Q4-2023 to \$897,598 at the end of Q1-2024. Current liabilities total \$173,701, and non-current liabilities were \$42,461 because of a prepayment from Alberta Innovates against work not yet complete. Current assets of \$469,141 provide working capital of \$295,440.

Long-term assets of \$644,619 are comprised of an investment for shares in a privately-held technology company, carried at \$330,000, laboratory equipment at a depreciated cost of \$156,793, and patents acquired in the Nou Life transaction valued at \$157,826.

<b>Balance as of</b>	<b>31 March 2024</b>	<b>31 March 2023</b>	<b>% change</b>
Current assets	469,141	703,939	-33.35%
Property & Equipment	156,793	168,540	-6.97%
Patents	157,826	-	
Investment	330,000	210,000	+50.00%
<b>Total assets</b>	<b>1,113,760</b>	<b>1,082,749</b>	<b>+2.86%</b>
Current liabilities	173,701	107,976	+60.87%
Long-term liabilities	42,461	-	
<b>Total liabilities</b>	<b>216,162</b>	<b>107,976</b>	<b>+94.64%</b>
<b>Shareholders' equity</b>	<b>897,598</b>	<b>974,503</b>	<b>-7.89%</b>

## Liquidity & Capital Resources

As of 31 March 2024, the Company continues to maintain a liquid balance sheet with cash and cash equivalents of \$112,119, trade and other receivables of \$159,468, no debt, and marketable securities in the amount of \$72,547 in the form of TSX listed debentures.

Including the above, the Company had working capital of \$295,440 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.

## About Nou Life Sciences Inc.

The Company has closed the acquisition of a 60% interest in the issued capital of Nou Life Sciences Inc. by spending \$100,000 prior to 18 August 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.

## Contractual Obligations

None.

## Summary Of Innovotech Shares Issued From Treasury During Q1-2024

24,000 Employee stock Options were exercised during the period.

## Outstanding Share Capital

As at the date of this MD&A, there are 39,003,612 Class A common shares issued out of an unlimited number of Class A voting shares.

## Outstanding Stock Options

As of the date of this MD&A, there are 2,062,000 outstanding stock options previously granted to employees and directors. No new options were granted.

## Geographic Sales Information

	3-month period ended	
	31 Mar 2024	31 Mar 2023
	\$	\$
Canada	1,096	7,420
United States	283,693	211,299
Rest of World	29,187	36,973
	<b>313,976</b>	<b>255,692</b>

## OUTLOOK

During Q1-2024, the company expanded its capacity for work, including the addition of new staff and laboratory space. Conditions with several clients suggest that projects are

gearing up to greater scopes and the Company needs to remain responsive to meet client needs.

The Company continues to apply more of its R&D efforts toward increasing its contract research service offerings to clients and progress on InnovoSIL™ antimicrobial silver. As noted in previous MD&As, these product and service development initiatives will generate increasing costs in expensed R&D that will continue over the current year with a view to increasing future revenues. Please see Research and Development, below.

Innovotech is working with multiple prospective partners on new applications for InnovoSIL™-1 silver. Subsequent to the end of the quarter, one of these partners has signed an agreement for Innovotech to supply materials, support with contract research and protect future potential rights if the client chooses to move forward into a commercialization agreement.

## **Research and Development**

Innovotech is continuing a focussed program of R&D to expand the line of products and services available to clients.

Work started in 2023, and partially funded by a non-repayable grant from Alberta Innovates, is aimed at understanding the antiviral potential of InnovoSIL™-1 silver. These results are expected to be available in Q2-2024. Studies performed in 2023 in the year, 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 is also advancing the manufacturing processes and studying further physical properties of the compounds. Innovotech also continued its support to collaborators in their progress towards inclusion of InnovoSIL™-1 silver in their product lines.

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 into through the year focusing on validation of additional species to ensure superior Company services are offered in this field.

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 the testing methods to its service offerings.

As a contribution to the acquisition of NouLife Sciences Inc., 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. Various linker chemistry was assessed for product yield and stability. Subsequent work will include studies on permeability.

## **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 endeavours to mitigate credit risk to one half 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 2024 operational expenditures do not exceed its committed sources of funds and reasonably expected revenues. As of 31 March 2023, Innovotech's current assets were \$469,141 and its current liabilities were \$173,701. Working capital was therefore \$295,440.

## **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 31 March 2024.

**End.**