

INNOVOTECH INC.
Management's Discussion and Analysis of Financial Conditions
And Results of Operations for the Three and Six-Month Periods Ended June 30, 2019
(as of August 20, 2019)

The following Management's Discussion and Analysis (MD&A) of results of operations and financial position as at August 20, 2019 should be read in conjunction with the audited financial statements of Innovotech Inc. ("Innovotech", "we", or "the Company") for the year ended December 31, 2018 and the related notes thereto.

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.

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; consequently, actual results may differ materially from past results and those expressed or implied by any forward-looking statements.

Forward-looking statements may include words such as "expects", "plans", "will", "believes", "estimates", "intends", "may", and other words of similar meaning and may relate to future financial performance, business strategies, or safety and efficacy of unapproved products. Such forward looking statements are subject to risks, uncertainties and other factors many of which are beyond the control of Innovotech.

Factors that could cause or contribute to such risks or uncertainties include, but are not limited to the regulatory environment including the difficulty of predicting regulatory outcomes; changes in the value of the Canadian dollar; the Company's reliance on a small number of customers including government organizations; the demand for new products and the impact of competitive products, service and pricing; availability and cost of raw materials; fluctuations in operating results; government policies or actions; progress and cost of clinical trials; reliance on key strategic relationships; uncertainty related to intellectual property protection and potential costs associated with its defense; the Company's exposure to lawsuits and other matters beyond the control of management; the impact of the adoption of new accounting standards on 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 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.

OVERVIEW OF THE BUSINESS

Innovotech was incorporated in 2001 under the Alberta Business Corporations Act. The Company was listed on the TSX Venture Exchange in 2003. Since that time, the Company has become a leader in the field of contract research in connection with the susceptibility of coated medical devices to microbial biofilm formations. Innovotech occupies offices and laboratories in Edmonton, Alberta, Canada.

The Company makes and sells globally the MBEC Assay® Kit, a high throughput biofilm growth device approved as an ASTM International Standard test kit used to test anti-biofilm product claims.

Innovotech has developed and patented an anti-biofilm silver periodate compound for wound care and medical device coatings called InnovoSIL™-1, a silver based antimicrobial compound that has the unique feature that it is not rapidly inactivated by chloride (salts) that is present in all body tissues.

The Company maintains an active search for a contributive acquisition to expand and diversify its revenue sources.

BUSINESS STRATEGY AND MARKETING

The Company has two businesses, contract research and the production and sale of the MBEC Assay® Kit. In respect of 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. The Company has methodologies, equipment, and long experience that it believes give it certain proprietary advantages and efficiencies.

The Company pursues new accounts in its contract research business on a direct contact basis. We have determined over time that maintaining an active profile that is connective to the finite number of client entities available to us is the most effective and useful approach to marketing our services. We have supported this marketing approach with our recent ISO 17025 accreditation. By way of example, in 2019, to the date of this MD&A we have made 140 potential new account contacts by e-mail and telephone resulting in 15 signed research protocols.

Innovotech's manufacture and sale of the MBEC Assay® Kits also keeps the Company's name in the forefront of research and medical device testing of microbial biofilms on a global basis. The consistent revenues from sale of the Kits helps to mitigate the volatility inherent in contract research services. The Company believes that the association of the Kit with its contract research services is contributory to its contract research marketing efforts.

The Company continues to speak with agricultural and medical device companies to interest them in evaluating the anti-microbial biofilm properties of our InnovoSIL™ compounds to advance those products toward commercial application. There is ongoing third-party testing of our InnovoSIL™-1 and AgreGuard™ products (see product discussion below) in that regard.

Strategically, the Company continues to look for merger or acquisition opportunities to diversify its business activities, provide increased revenues, and extend its reach. This strategy is supported by our greater than \$7.5 million (Dec. 2018) of long-term tax pools available to reduce future net income for tax purposes.

OVERALL PERFORMANCE

The Company has reduced its R&D and G&A expenses and has focused its time and energy on increasing revenues. The ISO 17025 accreditation has supported these efforts, which have led to an improved performance in the second quarter of 2019, and in the six months to June 30th.

FINANCIAL RESULTS OF OPERATIONS

Results for the 3 months ended June 30, 2019 (Q2):

Gross revenue for Q2 improved to \$286,614 from \$194,988 in Q2 of the prior year. Results were led by contract research services at \$220,776 supported by plate sales of \$65,838. Net loss decreased to \$5,031 from a net loss of \$66,170 in Q2 of the prior year. The improvement is a result of higher revenues, reduced R&D expenditures, and lower G&A costs.

Revenue & Gross Profit:

	Q2, 2019	Q2, 2018
Contract research revenue	220,776	108,906
Product Sales	65,838	86,082
Gross revenue	286,614	194,988
Cost of goods sold	88,491	53,933
Gross Profit	198,123	141,055

The higher gross revenue in Q2 is the sole driver of the increase in gross profit over Q2, 2018. The higher revenue has derived from management's continuous focus on building our client list aided by the above-noted ISO certification all applied without the distraction of R&D priorities.

Operating Expenses & Net Profit (Loss):

	Q2, 2019	Q2, 2018
General & administrative expenses(G&A)	173,669	178,157
Bad debt expense	22,873	-
Sales and marketing	39	-
Research and Development	7,446	32,371
Employment grant	(2,373)	-
Scientific research tax credits	-	(3303)
Total operating expenses	201,654	207,225
Interest expense	1,500	-
Net income (Loss)	(5,031)	(66,170)

The reduction in G&A expenses from \$178,157 in Q2, 2018 to \$173,670 occurred coincident with a 147% increase in sales revenue. Increased revenue and attention to costs combined to drive the improved performance. Results were negatively affected by a bad debt of \$22,873. In the absence of this, for us, unusual charge, Innovotech would have earned a profit in the second quarter of 2019.

Results for the 6 months ended June 30, 2019 (H1):

Innovotech's performance in the first 6 months of 2019 demonstrated a material improvement over the first 6- months of the 2018 year. This first half improvement is attributable to the same factors that drove the improved second quarter results. Revenues increased from \$410,784 in H1 of 2018 to \$508,635 in H1 of 2019. The increase in revenues, combined with reduced expenses resulted in the prior year's H1 loss of \$142,696 being reduced to a loss of \$19,549 in the current H1. Had it not been for the bad debt experienced in Q2 as noted above, Innovotech would have earned a profit in the first half of 2019.

First half year-over-year comparison:

	H1, 2019	H1, 2018
Gross revenue	508,635	410,784
Cost of sales	157,581	118,345
Gross profit	351,054	292,439
General & administrative expenses	335,140	388,436
Bad debt expense	22,872	-
Sales and marketing	39	85
Research and development	11,923	49,917
Employment grant	(2,373)	
Scientific research tax credits		(3,303)
Total operating expenses	367,602	435,135
Interest expense	3,001	-
Net income (Loss)	(19,549)	(142,696)

Year-over year EBITDAS

EBITDAS, or earnings before interest, taxes, depreciation, amortization and stock-based compensation, is not a Generally Accepted Accounting Principle. It is, however, a useful measure of operational performance.

	H1, 2019	H1, 2018
Net income (Loss)	(19,549)	(142,696)
Depreciation and amortization	5,856	6,900
Loss on disposal of equipment	-	1,296
Interest	3,001	-
Stock-based compensation	1,800	34,129
	(8,892)	(100,371)

The improvement in EBITDAS stems from higher revenues accompanied by reduced G&A and R&D expenses offset by charges for bad debts. The interest component is interest on a \$100,000 6% debenture described below. Share-based compensation was provided to four non-executive employees.

OUTLOOK

The Company has been optimistic that revenues would benefit by our becoming ISO certified, and that has happened. This has been the case in the first and second quarters of 2019 and operations continue at a comfortable level as of the date of this MD&A. Although as a contractor we are always dependent on our ability to obtain and execute on contracts, there is every reason to be encouraged by the current level of contract research activity. Our sales of MBEC Assay plates continue at a brisk level.

ASSETS, LIABILITIES AND SHAREHOLDER'S EQUITY

	June 30, 2019	Dec 31, 2018
Current assets	186,182	211,425
Equipment & other	56,478	60,905
Total assets	242,660	272,330
Current liabilities	166,939	178,860
Long-term liabilities	-	-
Shareholder's equity	75,721	93,470

LIQUIDITY AND CAPITAL RESOURCES

Innovotech has had a history of frequent quarterly and annual losses exacerbated by varying levels of expensed R&D costs. The Company has, in the past, funded its operations primarily from equity financing, shareholder loans and government grants. The Company is working toward changing those operating procedures. As of June 30, 2019, the Company had cash and cash equivalents of \$22,860 versus \$28,808 at December 31, 2018, and a working capital of \$19,243 versus \$32,565 at December 31, 2018. The deterioration of working capital is on account of the net loss of \$19,549 in the first 6 months of the 2019 fiscal year.

On July 15, 2019, the term of the 6% shareholder loan in the amount of \$100,000 was extended from October 22nd, 2019 to July 15, 2022. The loan will be categorized as a long-term liability, which will improve Innovotech's working capital position.

SUMMARY OF QUARTERLY RESULTS

	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Gross revenue	286,614	222,021	199,615	216,536
Cost of sales	88,491	69,090	57,937	44,332
Gross profit	198,123	152,931	141,678	172,204
Expenses	203,154	167,449	109,833	188,987
Net income (loss)	<u>-5,031</u>	<u>-14,518</u>	<u>31,845</u>	<u>-16,783</u>
Net income (loss) per share	\$0.00	\$0.00	\$0.00	\$0.00

	<u>Q2 2018</u>	<u>Q1 2018</u>	<u>Q4 2017</u>	<u>Q3 2017</u>
Gross revenue	194,988	215,796	195,087	258,500
Cost of sales	53,933	64,412	44,196	111,325
Gross profit	141,055	151,384	150,891	147,175
Expenses	<u>207,225</u>	<u>193,782</u>	<u>121,603</u>	<u>-537,141</u>
Net income (loss)	<u>-66,170</u>	<u>-42,398</u>	<u>29,289</u>	<u>684,316</u>
Net income (loss) per share	\$0.00	\$0.00	\$0.00	\$0.02

ABOUT INNOVOSIL AND AGREGUARD PRODUCTS

Innovotech has financed and completed intensive R&D on the development and application of silver/iodide compounds over the past several years. In terms of the anti-microbial properties of the resulting products, the work has been successful. We refer to these products as the InnovoSIL™ family.

InnovoSIL™-1 is a silver based antimicrobial compound that has the unique feature that the silver component is not rapidly inactivated by chloride (salt) that is present in all body tissues.

In 2017 Innovotech was issued US patent #9723843 covering the InnovoSIL™ family of Silver (1) Periodate Compounds Having Broad Anti-Microbial Properties, including InnovoSIL™-1 and AgreGuard™. The patent claims the ability to prevent, reduce, and treat microbial growth or contamination and describes treatment of infection in humans, pets, and livestock, disinfection of surfaces, and anti-biofilm as well as anti-planktonic (free floating) activity. The patent claims the use of AgreGuard™ as an antimicrobial agent to coat plant surfaces (including leaves or seeds), thus providing protection for agricultural applications of interest. During the second quarter under review, the Company received a Notice of Allowance (a preliminary to a granting of a US patent) for antimicrobial silver iodates in gels functional for slow release in surface coatings of medical implant devices or direct application to wounds (although InnovoSIL™ does not have FDA or Health Canada approval for either application).

There are other members of the InnovoSIL™ family that have different properties that may be suitable for applications in addition to those in which InnovoSIL™-1 is known to excel. US patent #9723843 also provides coverage for a variety of compounds in the family that replace some of the silver with other metals or hydrogen. This could allow Innovotech to generate additional products with tuned physical or chemical properties such as stability or solubility, or reduced costs.

Innovotech's AgreGuard™ products have shown effectiveness against such diseases as Powdery Mildew on lettuce, White Mold on beans, Bacterial Spot on tomatoes and Fire Blight on apples. They are effective at low concentrations, are applied using conventional techniques in green houses and outdoors and can be environmentally friendlier than currently used products such as streptomycin.

CONTRACTUAL OBLIGATIONS

Included in current liabilities is a note for \$100,000, comprising the full amount of a debenture provided by a shareholder. The note bears interest at 6% per annum paid monthly, is unsecured, and may be repaid in whole or in part at any time prior to its maturity on July 15, 2022. There are no other material contractual obligations or off-balance sheet arrangements.

OUTSTANDING SHARE CAPITAL

As at the date of this MD&A, there are 36,239,612 issued out of an unlimited number of Class A voting shares. There are as of the date of this MD&A, incentive stock options outstanding in the amount of 1,933,000 optioned shares.

CHANGES IN ACCOUNTING POLICIES

New and amended standards adopted

- a) IFRS 16, Leases establishes a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach to lessor accounting in IFRS 16 substantially unchanged from the predecessor standards IAS 17 Leases. The standard replaces IAS 17 Leases and related interpretations.

The adoption of IFRS 16 resulted in certain procedural changes in the evaluation of leases, however accounting policies for leases remains the same.

SIGNIFICANT ESTIMATES AND CRITICAL JUDGEMENTS

The preparation of interim financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances.

Non-financial assets, including equipment and intangible assets, are reviewed for indicators of impairment at each reporting date. Where impairment indicators are identified, the Company uses discounted cash flow models to determine the recoverable amount of the assets, which drives the conclusion of whether the impairment exists, and if it does, the amount of impairment to record. These models require assumptions to be formulated about future cash flows, margins and discount rates, which are made using careful judgment, but are nonetheless subject to estimation risk.

Determining the fair value of stock options and warrants requires judgment related to the choice of a pricing model, the estimation of expected stock price volatility, and the expected term of the instrument. Any changes in the estimates utilized to determine fair value could result in a significant change in the amount of share-based compensation charged to operations.

The significant accounting policies that are most critical in fully understanding and evaluating the reported results in this MD&A are included in notes 1 to 3 to the Company's Annual Financial Statements as of December 31, 2018.