

OVATION SCIENCE INC.

Condensed Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2020 and 2019

*Expressed in Canadian dollars
(Unaudited)*

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements for Ovation Science Inc. (the “Company”) have been prepared by management in accordance with International Financing Reporting Standards (“IFRS”). These condensed consolidated interim financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company’s auditors. The Company’s Audit Committee and Board of Directors have reviewed and approved these condensed consolidated interim financial statements. In accordance with the disclosure requirements of National Instrument 51-102 released by the Canadian Securities Administrators, the Company’s independent auditors have not performed a review of these condensed consolidated interim financial statements.

OVATION SCIENCE INC.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian dollars)

(Unaudited)

| | Note | As at March 31, 2020 | As at December 31, 2019 |
|---|------|-------------------------|----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | \$ 218,021 | \$ 378,756 |
| Short-term investments | | 604,102 | 601,027 |
| Trade and other receivables | 3 | 33,548 | 56,084 |
| Prepaid expenses | 4 | 20,126 | 57,359 |
| Inventory | 5 | 338,436 | 111,132 |
| | | 1,214,233 | 1,204,358 |
| Equipment | 7 | 28,989 | 28,665 |
| License | 6 | 606,812 | 606,812 |
| Total assets | | \$ 1,850,034 | \$ 1,839,835 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and other liabilities | 8 | \$ 165,739 | \$ 100,818 |
| Due to related parties | 13 | 21,971 | 19,478 |
| Convertible notes | 9 | 241,697 | 230,159 |
| Derivative liability | 9 | - | 11,781 |
| Total liabilities | | 429,407 | 362,236 |
| Shareholders' equity | | | |
| Share capital | 10 | 1,946,975 | 1,940,692 |
| Reserves | 11 | 984,545 | 941,198 |
| Accumulated other comprehensive income | | 5,826 | 1,597 |
| Deficit | | (1,516,719) | (1,405,888) |
| | | 1,420,627 | 1,477,599 |
| Total liabilities and shareholders' equity | | \$ 1,850,034 | \$ 1,839,835 |

Nature of business and going concern (Note 1)

Subsequent events (Note 15)

**These condensed consolidated interim financial statements were approved by the Board of Directors on
June 1, 2020:**

"Logan Anderson"

Director

"Terry Howlett"

Director

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

OVATION SCIENCE INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited)

| | Note | Three months ended March 31, 2020 | Three months ended March 31, 2019 |
|---|-----------|--------------------------------------|--------------------------------------|
| Revenue | | | |
| Product sales | | \$ 210,924 | \$ - |
| Polymer sales | | 15,147 | 20,668 |
| Packaging fees | | 65,415 | 38,498 |
| | | 291,486 | 59,166 |
| Cost of sales | 5 | (99,870) | (11,754) |
| Gross margin | | 191,616 | 47,412 |
| Operating expenses | | | |
| Management and director fees | 13 | 96,231 | 81,890 |
| Advertising and promotion | | - | 27,400 |
| Depreciation | 7 | 2,142 | - |
| Office and general | | 50,539 | 23,593 |
| Professional fees | | 43,433 | 27,407 |
| Product development | | 40,978 | 28,180 |
| Royalty fees | | 10,155 | - |
| Share-based payments | 11 | 45,130 | 14,432 |
| Investor relations | | 21,000 | - |
| | | 309,608 | 202,902 |
| Loss from operations | | (117,992) | (155,490) |
| Other income (expenses) | | | |
| Interest expense | | (5,136) | (9,885) |
| Accretion expense | 9 | - | (2,190) |
| Interest income | | 3,096 | 7,688 |
| Change in fair value of derivative liability | 9 | 11,781 | (27,980) |
| Foreign exchange gain (loss) | | (2,580) | (391) |
| Net loss | | \$ (110,831) | \$ (188,248) |
| Foreign currency translation to reporting currency | | 5,826 | - |
| Net loss and comprehensive loss | | (105,005) | (188,248) |
| Loss per share – basic and diluted | | \$ (0.00) | \$ (0.01) |
| Basic and diluted weighted average number of common shares outstanding | | 23,235,290 | 23,153,964 |

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

OVATION SCIENCE INC.

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

(Unaudited)

| | Share capital | | Reserves | Accumulated other comprehensive income | Deficit | Total shareholders' equity |
|--|-------------------|---------------------|-------------------|---|-----------------------|----------------------------------|
| | Number | Amount | | | | |
| Balance at December 31, 2018 | 23,153,121 | \$ 1,900,518 | \$ 858,866 | \$ - | \$ (569,945) | \$ 2,189,439 |
| Warrants exercised | 25,000 | 11,108 | (3,608) | - | - | 7,500 |
| Share-based payments | - | - | 14,432 | - | - | 14,432 |
| Loss for the period | - | - | - | - | (188,248) | (188,248) |
| Balance at March 31, 2019 | 23,178,121 | \$ 1,911,626 | \$ 869,690 | \$ - | \$ (758,193) | \$ 2,023,123 |
| Balance at December 31, 2019 | 23,234,631 | \$ 1,940,692 | \$ 941,198 | \$ 1,597 | \$ (1,405,888) | \$ 1,477,599 |
| Warrants exercised | 10,000 | 6,283 | (1,783) | - | - | 4,500 |
| Share-based payments | - | - | 45,130 | - | - | 45,130 |
| Foreign currency translation adjustment | - | - | - | 4,229 | - | 4,229 |
| Loss for the period | - | - | - | - | (110,831) | (110,831) |
| Balance at March 31, 2020 | 23,244,631 | \$ 1,946,975 | \$ 984,545 | \$ 5,826 | \$ (1,516,719) | \$ 1,420,627 |

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

OVATION SCIENCE INC.
Condensed Interim Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 |
|--|--|--|
| OPERATING ACTIVITIES | | |
| Loss for the period | \$ (110,831) | \$ (188,248) |
| Adjustments for non-cash items: | | |
| Accretion expense | - | 2,190 |
| Interest expense | 4,986 | 9,885 |
| Depreciation | 2,142 | - |
| Share-based payments | 45,130 | 14,432 |
| Interest earned | (3,075) | - |
| Change in fair value of derivative liability | (11,781) | 27,980 |
| Unrealized foreign exchange loss | 13,301 | 391 |
| Changes in working capital items: | | |
| Trade and other receivables | 22,536 | (1,523) |
| Inventory | (227,304) | 11,753 |
| Prepaid expense | 37,233 | 18,750 |
| Accounts payable and accrued liabilities | 62,428 | (19,808) |
| Cash flows used in operating activities | (165,235) | (124,198) |
| INVESTING ACTIVITIES | | |
| Short-term investment | - | 1,500,000 |
| Cash flows provided by investing activities | - | 1,500,000 |
| FINANCING ACTIVITIES | | |
| Proceeds from exercise of warrants | 4,500 | - |
| Repayment of promissory notes | - | (122,272) |
| Cash flows provided by (used in) financing activities | 4,500 | (122,272) |
| Change in cash | (160,735) | 1,253,530 |
| Cash, beginning | 378,756 | 468,969 |
| Cash, ending | \$ 218,021 | \$ 1,722,499 |
| SUPPLEMENTAL CASH FLOW DISCLOSURE: | | |
| Proceeds receivable on option exercise | \$ - | \$ 7,500 |

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

OVATION SCIENCE INC.

Notes to the Condensed Interim Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian dollars)
(Unaudited)

1. NATURE OF BUSINESS AND GOING CONCERN

Ovation Science Inc. (the “Company”) was incorporated in the Province of British Columbia on July 18, 2017, under the Business Corporations Act of British Columbia. The Company is in the business of providing topical and transdermal cannabis products under the “Ovation” brand label utilizing patented “Invisicare” delivery technology which it acquired for exclusive use for cannabis formulated products from Skinvisible Pharmaceuticals, Inc. (“Skinvisible”). The Company’s shares are traded on the Canadian Securities Exchange under the symbol “OVAT”.

The Company’s head office is located at Suite 510, 744 West Hastings Street, Vancouver, B.C. V6C 1A5, and its registered office is Suite 704, 595 Howe Street, Vancouver, B.C. V6C 2T5.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at March 31, 2020, the Company is not able to finance day to day activities through operations and has incurred losses since inception. The continuing operations of the Company are dependent upon its ability to develop a viable business and to attain profitable operations and generate funds there from. This indicates the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs with loans from directors and companies controlled by directors and/or issuance of common shares. If the Company is unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

COVID-19

The recent outbreak of the coronavirus, also known as “COVID-19”, has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company’s business activities. The extent to which the coronavirus may impact the Company’s business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada, the United States, and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 2 to the audited annual consolidated financial statements for the year ended December 31, 2019 and have been consistently followed in the preparation of these condensed consolidated interim financial statements.

Except as summarized below, the Company used the same accounting policies and methods of computation as in the audited annual consolidated financial statements for the year ended December 31, 2019.

Basis of preparation

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 30, 2020.

OVATION SCIENCE INC.

Notes to the Condensed Interim Financial Statements
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(Expressed in Canadian dollars)
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. The condensed consolidated interim financial statements are presented in Canadian dollars, unless otherwise noted.

Basis of consolidation

These consolidated financial statements include the amounts of the Company and its wholly-owned subsidiary, Ovation Science USA Inc. All inter-company balances, transactions, income and expenses have been eliminated upon consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an entity, when the Company is exposed, or has rights, to variable returns from the entity and when the Company has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

Significant estimates and judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the applicable of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

In preparing these condensed consolidated interim financial statements, the significant estimates and critical judgments were the same as those applied to the financial statements as at and for the year ended December 31, 2019.

Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and determined that there are no standards that are relevant to the Company.

3. TRADE AND OTHER RECEIVABLES

| | March 31, 2020 | December 31, 2019 |
|-------------------|-----------------------|--------------------------|
| Trade receivables | \$ 29,587 | \$ 46,635 |
| GST receivable | 3,961 | 9,449 |
| | \$ 33,548 | \$ 56,084 |

OVATION SCIENCE INC.

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(Expressed in Canadian dollars)
(Unaudited)

4. PREPAID EXPENSES

| | March 31, 2020 | December 31, 2019 |
|------------------|-----------------------|--------------------------|
| Prepaid expenses | \$ 15,605 | \$ 31,327 |
| Legal retainer | 4,521 | 26,032 |
| | \$ 20,126 | \$ 57,359 |

5. INVENTORY

| | March 31, 2020 | December 31, 2019 |
|----------------|-----------------------|--------------------------|
| Finished goods | \$ 91,650 | \$ 98,995 |
| Packaging | 70,270 | 8,443 |
| Raw materials | 176,516 | 3,694 |
| | \$ 338,436 | \$ 111,132 |

During the three months ended March 31, 2020, the Company incurred \$99,870 (2019 - \$11,754) in costs of sales.

6. LICENSE

On September 29, 2017, the Company entered into a License and Assignment Agreement (the "Assignment Agreement") with Skinvisible, whereby Skinvisible granted the License to the Company. The agreement shall remain in effect, except for sub-licensees appointed by the Company. The consideration for the Assignment Agreement is US\$500,000 (\$606,812) payable as follows:

- \$312,000 (US\$250,000) within 90 days of execution of this agreement (paid);
- A promissory note for \$294,812 (US\$250,000) due upon the earlier of the Company completing an initial public offering or March 31, 2018, which was later amended to June 30, 2018 and September 15, 2018 (paid).

On November 10, 2017, the Company entered into a License Agreement (the "Agreement") with Lighthouse Strategies, LCC ("Lighthouse"), whereby the Company granted to Lighthouse the exclusive right to, utilize the License. The agreement shall remain in effect until terminated (with 30 days written notice from either party), unless failure to comply with the terms in the agreement. As part of the consideration related to this agreement, the Company have received a quarterly minimum packaging fee that started at the beginning of June 2018.

During the three-month period ended March 31, 2020, there were no additions or impairment losses recognized related to the license.

The key assumptions used in the calculations of the recoverable amounts include sales growth per year, changes in cost of sales and operating costs based on internal forecasts. Cash flows were projected out 5 years and a terminal value was calculated using a long-term steady growth of 13.4%. A pre-tax discount rate of 17.5% was used.

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7. FURNITURE AND EQUIPMENT

| | Furniture | | Computer equipment | | Total |
|----------------------------------|-----------|---------------|--------------------|---------------|------------------|
| Cost: | | | | | |
| At December 31, 2018 | \$ | - | \$ | - | \$ - |
| Additions | | 15,834 | | 15,834 | 31,668 |
| Foreign translation impact | | (215) | | (215) | (430) |
| At December 31, 2019 | | 15,619 | | 15,619 | \$ 31,238 |
| Foreign translation impact | | 1,385 | | 1,385 | 2,770 |
| At March 31, 2020 | | 17,004 | | 17,004 | \$ 34,008 |
| Accumulated amortization: | | | | | |
| At December 31, 2018 | \$ | - | \$ | - | \$ - |
| Depreciation | | 965 | | 1,608 | 2,573 |
| At December 31, 2019 | \$ | 965 | \$ | 1,608 | \$ 2,573 |
| Depreciation | | 803 | | 1,339 | 2,142 |
| Foreign translation impact | | 114 | | 190 | 304 |
| At March 31, 2020 | | 1,882 | | 3,137 | \$ 5,019 |
| Net book value | | | | | |
| At December 31, 2019 | \$ | 14,654 | \$ | 14,011 | \$ 28,665 |
| At March 31, 2020 | \$ | 15,122 | \$ | 13,867 | \$ 28,989 |

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | March 31, 2020 | December 31, 2019 |
|----------------------------------|-------------------|-------------------|
| Accounts payable | \$ 117,447 | \$ 34,560 |
| Accrued liabilities | 42,021 | 50,166 |
| Due to related parties (Note 13) | 6,271 | 16,092 |
| | \$ 165,739 | \$ 100,818 |

9. CONVERTIBLE NOTES

On June 28, 2018 and June 29, 2018, the Company issued unsecured convertible notes for proceeds of \$50,000 and \$100,000, respectively. The convertible notes bear interest at 10% per annum and were due on August 28, 2019 and August 29, 2019, respectively. The \$100,000 convertible note was issued to a director of the Company. At any time after issuance, the holder is entitled to convert, at their sole discretion, all or a portion of the principal amount into common shares of the Company at a value of \$0.30 principal per share. These convertible notes include both a liability component for the contractual cash flows and an equity component for the conversion feature.

The liability component was valued first based on the present value of contractual cash flows using a discount rate of 12% which is the estimated rate that would have been charged for a similar instrument without a conversion feature. The equity component of \$3,245 was measured based on the residual value of the compound instrument as a whole after deducting the amount determined separately for the liability component.

During the year ended December 31, 2019, the Company repaid the convertible note of \$50,000 initially issued on June 28, 2018.

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(Expressed in Canadian dollars)
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9. CONVERTIBLE NOTES (continued)

On August 14, 2018, the Company issued a convertible promissory note for a principal amount of \$130,870 (US\$100,000). The note is unsecured, bears interest at 10% per annum, and is due October 14, 2019.

At any time after issuance, the holder is entitled to convert, at their sole discretion, all or a portion of the principal amount into common shares of the Company at a value of CAD \$0.30 principal per share.

As the note is issued in a currency different from the Company's functional currency, the conversion feature is treated as a derivative liability and recorded at fair value. The value of the derivative liability was calculated first, with the remaining face value of the loan attributed to the debt host component

The following table summarizes the continuity of the liability components of the Company's convertible notes:

| | Note (i) | Note (ii) | Total |
|-----------------------------------|-----------------|------------------|--------------|
| As at December 31, 2018 | \$ 148,480 | \$ 131,250 | \$ 279,730 |
| Accretion | 1,520 | 5,293 | 6,813 |
| Repayments | (50,000) | - | (50,000) |
| Exchange gain on convertible note | - | (6,384) | (6,384) |
| As at December 31, 2019 | \$ 100,000 | \$ 130,159 | \$ 230,159 |
| Exchange loss on convertible note | - | 11,538 | 11,538 |
| As at March 31, 2020 | \$ 100,000 | \$ 141,697 | \$ 241,697 |

During the period ended March 31, 2020, interest expense of \$4,986 (2019 - \$699) and accretion expense of \$nil, (2019 - \$566) was recorded for the convertible notes. As at March 31, 2020, all convertible notes outstanding are in default and payable on demand.

Derivative Liability

The conversion option on the convertible note denominated in U.S. dollars has been accounted for as a derivative liability as the number of shares or units issuable on conversion will vary as a result of changes in foreign exchange rates. A continuity of the derivative liability is as follows:

| | | |
|--|----|----------|
| As at December 31, 2017 | \$ | - |
| Recognized on issuance of convertible note | | 10,825 |
| Net change in fair value of liability | | 45,154 |
| Exchange loss on embedded derivative | | 2,866 |
| As at December 31, 2018 | \$ | 58,845 |
| Net change in fair value of liability | | (47,064) |
| As at December 31, 2019 | \$ | 11,781 |
| Derecognition of conversion option | | (11,781) |
| As at March 31, 2020 | \$ | - |

During the period ended March 31, 2020, the convertible note matured and as a result, there is no longer a conversion option. The derivative liability associated with the conversion option of \$11,781 was derecognized and is presented as a change in fair value of derivative liability.

OVATION SCIENCE INC.

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(Unaudited)

10. SHARE CAPITAL**Authorized share capital and shares in escrow**

Unlimited number of common shares without par value
Unlimited number of preferred shares without par value
At March 31, 2020, 5,032,501 (March 31, 2019 – 7,548,751) shares are held in escrow, to be released by 2021.

Authorized share capital

Unlimited number of common shares without par value
Unlimited number of preferred shares without par value

Common shares

During the three months ended March 31, 2020:

During the three-month period ended March 31, 2020, the Company issued 10,000 common shares for exercise of 10,000 warrants at \$0.45 for cash proceeds of \$4,500. The value allocated to these warrants when issued of \$1,783 was reclassified from reserves to share capital.

During the three months ended March 31, 2019:

On March 28, 2019, the Company issued 25,000 common shares for exercise of 25,000 stock options at \$0.30 for cash proceeds of \$7,500. The proceeds have not been received as of March 31, 2019 and have been recorded in accounts receivable.

Escrowed shares

In accordance with National Policy 46-201 - Escrow for Initial Public Offerings, all securities an issuer owned or controlled by its principals are required to be placed in escrow at the time of the issuer's initial public offering, unless the shares held by the principal or issuable to the principal upon conversion of convertible securities held by the principal collectively represent less than 1% of the voting rights attaching to the total issued and outstanding securities of the issuer after giving effect to the initial public offering. Upon completion of the Offering, the Company became an "emerging issuer" as defined in NP 46-201.

8,387,501 common shares (the "Escrowed Securities") are held by and are subject to the terms of an escrow agreement dated April 10, 2018 and the holders of the Escrowed Securities. The shares are subject to Escrow with the following release dates.

| | |
|----------------------------------|--|
| On the Listing Date | 1/10 of the Escrowed Securities |
| 6 months after the Listing Date | 1/6 of the remaining Escrowed Securities |
| 12 months after the Listing Date | 1/5 of the remaining Escrowed Securities |
| 18 months after the Listing Date | 1/4 of the remaining Escrowed Securities |
| 24 months after the Listing Date | 1/3 of the remaining Escrowed Securities |
| 30 months after the Listing Date | 1/2 of the remaining Escrowed Securities |
| 36 months after the Listing Date | the remaining Escrowed Securities |

As at March 31, 2020, 5,032,501 common shares remained in escrow.

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 (Expressed in Canadian dollars)
 (Unaudited)

11. RESERVES**Stock option plan**

The Directors of the Company adopted a stock option plan on April 10, 2018 (the “Plan”). The Plan provides that, subject to the requirements of the Canadian Securities Exchange, the aggregate number of securities reserved for issuance will be 10% of the number of the Company’s Common Shares issued and outstanding at the time such options are granted. The Plan provides that the number of Common Shares that may be reserved for issuance to any one individual upon exercise of all stock options held by such individual may not exceed 5% of the issued Common Shares, if the individual is a director, officer, employee or consultant, or 1% of the issued Common Shares, if the individual is engaged in providing investor relations services, on a yearly basis. All options granted under the Plan will expire not later than the date that is ten years from the date that such options are granted. Options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from date of termination other than for cause; or (iii) one year from the date of death or disability.

Stock options

During the three months ended March 31, 2020:

On February 1, 2020, the Company granted 100,000 stock options to a consultant of the Company. The options entitle the holders to acquire common shares of the Company at \$0.30 per share. These options vested February 1, 2020 and expire on February 1, 2022.

On March 25, 2020, the Company granted 50,000 stock options to a consultant of the Company. The options entitle the holders to acquire common shares of the Company at \$0.35 per share. These options vested March 25, 2020 and expire on March 25, 2022.

During the three months ended March 31, 2020, the Company recorded share-based payment expense of \$45,130 (March 31, 2019 - \$14,432).

The stock options were valued using the Black Scholes Option Pricing model using the following weighted average assumptions: share price: \$0.33, expected life: 1.12 years, expected volatility: 132%, dividend yield: 0%, and risk-free interest rate: 0.48%.

A summary of stock option activity for the three months ending March 31, 2020 is as follows:

| | Options | Weighted average exercise price |
|------------------------------|----------------|--|
| Outstanding, January 1, 2020 | 1,750,000 | \$ 0.30 |
| Granted | 150,000 | 0.20 |
| Outstanding, March 31, 2020 | 1,900,000 | \$ 0.30 |
| Exercisable, March 31, 2020 | 1,900,000 | \$ 0.30 |

As at March 31, 2020, the following stock options were outstanding:

| Numbers of options | Exercise price | Expiry date |
|---------------------------|-----------------------|--------------------|
| 1,150,000 | \$ 0.30 | April 10, 2020 |
| 300,000 | 0.30 | October 8, 2021 |
| 300,000 | 0.30 | December 3, 2020 |
| 100,000 | 0.30 | February 1, 2022 |
| 50,000 | 0.35 | March 25, 2022 |
| 1,900,000 | | |

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11. RESERVES (continued)

At March 31, 2020, the weighted-average remaining contractual life of options outstanding is 0.51 years (2019 - 1.08 years).

Warrants

A summary of warrant activity for the year ending March 31, 2020 as follows:

| | Warrants | Weighted average exercise price |
|------------------------------|-----------|------------------------------------|
| Outstanding, January 1, 2020 | 4,647,490 | 0.45 |
| Exercised | (10,000) | 0.45 |
| Outstanding, March 31, 2020 | 4,637,490 | 0.45 |
| Exercisable, March 31, 2020 | 4,637,490 | \$ 0.45 |

As at March 31, 2020, the following warrants were outstanding:

| Numbers of warrants | Exercise price | Expiry date |
|---------------------|----------------|-------------------|
| 4,637,490 | \$ 0.45 | November 15, 2020 |
| 4,637,490 | | |

As at March 31, 2020, the weighted-average remaining contractual life of warrants outstanding is 0.88 years (2018 – 1.88 years).

12. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, the sub-licensing and sales of products that utilize Invisicare®, a patented polymer-based technology for topical and transdermal skin care products. As the operations comprise a single reporting segment, amounts disclosed in the financial statements also represent segment amounts.

The operating segment of the Company is defined as a component of the Company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer.

The Company has one group of similar products due to having a similar underlying technology, class of customers, and economic characteristics

Revenue

| | March 31, 2020 | March 31, 2019 |
|----------------|----------------|----------------|
| United States | \$ 109,465 | \$ 59,166 |
| Canada | 2,078 | - |
| United Kingdom | 56,725 | - |
| China | 123,218 | - |
| | \$ 291,486 | \$ 59,166 |

Total Assets

| | March 31, 2020 | December 31, 2019 |
|---------------|----------------|-------------------|
| United States | \$ 635,801 | \$ 635,477 |
| | \$ 635,801 | \$ 635,477 |

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Notes to the Condensed Interim Financial Statements
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian dollars)
(Unaudited)

12. SEGMENTED INFORMATION (Continued)

The majority of the revenue earned in the United States of America, United Kingdom, and China, are generated from one major customer in each of the respective countries.

13. RELATED PARTY TRANSACTIONS

Key management compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel is as follows:

| During the three months ended March 31, | | 2020 | | 2019 |
|--|----|-------------|----|-------------|
| Management fees | \$ | 94,231 | \$ | 81,290 |
| Director fees | | 2,000 | | 600 |
| | \$ | 96,231 | \$ | 81,890 |

Related party transactions and balances

As at March 31, 2020, due to related parties of \$21,971 (December 31, 2019 - 19,478) consists of accrued interest, management and directors' fees. As at March 31, 2020, trade and other payables consists of \$6,271 (December 31, 2019 - \$16,092) in management fees and expense reimbursements owed to related parties. These amounts are non-interest bearing, unsecured and due on demand.

During the three-month period ended March 31, 2020, the Company paid \$3,000 (2019 - \$nil) in consulting fees to a Company owned by the CFO's spouse.

14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue its operations and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its promissory notes, convertible notes and shareholders' equity.

The Company's primary source of capital is through the issuance of convertible notes and equity. The Company manages and adjusts its capital structure when changes in economic conditions occur. To maintain or adjust the capital structure, the Company may seek additional funding. The Company may require additional capital resources to meet its administrative overhead expenses in the long term. The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital.

15. SUBSEQUENT EVENTS

On May 27, 2020, the Company closed a private placement of 5,040,000 units at a price of \$0.42 per unit for gross proceeds of \$2,116,800, net \$1,968,624 after payment of commissions totaling \$148,176. The Company issued a total of 352,800 brokers warrants exercisable to purchase one common share at \$0.42 per share for 18 months from closing to registered investment dealers in connection with the offering.

Each unit consists of one common share of the Company and one half of one non-transferable share purchase warrant. Each warrant will be exercisable to purchase an additional common share at a price of \$0.60 per share for a period of 18 months from closing of the private placement.

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15. SUBSEQUENT EVENTS (*Continued*)

On April 10, 2020, a total of 1,150,000 stock options with an exercise price of \$0.30 expired.

On April 13, 2020, the Company granted 1,100,000 stock options to members of key management. These options have an exercise price of \$0.41 per share and expire on April 13, 2022.