

OVATION SCIENCE INC.

Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended June 30, 2020

*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 June 30, 2020	As at December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		\$ 200,391	\$ 378,756
Short-term investments	3	1,704,295	601,027
Trade and other receivables	4	38,616	56,084
Prepaid expenses	5	33,004	57,359
Inventory	6	904,687	111,132
		2,880,993	1,204,358
Equipment	8	25,732	28,665
License	7	741,996	606,812
Total assets		\$ 3,648,721	\$ 1,839,835
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	9	\$ 221,489	\$ 100,818
Due to related parties	14	231	19,478
Convertible notes	10	236,413	230,159
Derivative liability	10	-	11,781
Total liabilities		458,133	362,236
Shareholders' equity			
Share capital	11	3,851,859	1,940,692
Reserves	12	1,435,975	941,198
Accumulated other comprehensive income		11,185	1,597
Deficit		(2,108,431)	(1,405,888)
Total liabilities and shareholders' equity		\$ 3,648,721	\$ 1,839,835

Nature of business and going concern (Note 1)

These condensed interim financial statements were approved by the Board of Directors on August 31, 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)

		Three months ended		Six months ended	
		June 30,		June 30,	
	Note	2020	2019	2020	2019
Revenue					
Product sales	\$	83,798	-	\$ 346,112	20,668
Packaging fees		16,879	55,701	82,294	94,199
		100,677	55,701	428,406	114,867
Cost of sales	6	(48,101)	-	(147,971)	(11,754)
Gross margin		52,576	55,701	280,435	103,113
Operating expenses					
Management and director fees	14	93,189	89,399	189,420	171,289
Advertising and promotion		-	78,982	-	106,382
Depreciation		2,212	-	4,354	-
Office and general		49,992	51,124	100,531	74,717
Professional fees		43,673	25,670	87,106	53,077
Product development		63,297	14,981	104,275	43,161
Royalty fees		-	-	10,155	-
Share-based payments	12	342,690	-	387,820	14,432
Investor relations		63,445	-	84,445	-
		658,498	260,156	968,106	463,058
Loss from operations		(605,922)	(204,455)	(687,671)	(359,945)
Other income (expenses)					
Interest expense	10	(6,843)	(7,074)	(11,979)	(16,959)
Accretion expense	10	-	(2,268)	-	(4,458)
Interest income		3,239	10,300	6,335	17,988
Change in fair value of derivative liability	10	(11,781)	2,899	-	(25,081)
Foreign exchange loss		(18,429)	(3,362)	(21,009)	(3,753)
Gain on expiration of conversion		11,781	-	11,781	-
Net loss	\$	(627,955)	(203,960)	\$ (702,543)	(392,208)
Foreign currency translation to reporting currency		5,359	-	11,185	-
Net loss and comprehensive loss		(622,596)	(203,960)	(691,358)	(392,208)
Loss per share – basic and diluted	\$	(0.02)	(0.01)	\$ (0.03)	(0.02)
Basic and diluted weighted average number of common shares outstanding		25,256,902	23,210,594	24,246,096	23,182,455

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
Options exercised	50,000	22,216	(7,216)	-	-	15,000
Warrants exercised	21,510	13,514	(3,834)	-	-	9,680
Share-based payments	-	-	14,432	-	-	14,432
Loss for the period	-	-	-	-	(392,208)	(392,208)
Balance at June 30, 2019	23,224,631	\$ 1,936,248	\$ 862,248	\$ -	\$ (962,153)	\$ 1,836,343
Balance at December 31, 2019	23,234,631	\$ 1,940,692	\$ 941,198	\$ 1,597	\$ (1,405,888)	\$ 1,477,599
Shares issued for cash	5,040,000	2,116,800	-	-	-	2,116,800
Share issuance costs	-	(269,782)	121,606	-	-	(148,176)
Options exercised	76,666	48,168	(13,668)	-	-	34,500
Warrants exercised	50,000	15,981	(981)	-	-	15,000
Share-based payments	-	-	387,820	-	-	387,820
Foreign currency translation adjustment	-	-	-	9,588	-	9,588
Loss for the period	-	-	-	-	(702,543)	(702,543)
Balance at June 30, 2020	28,401,297	\$ 3,851,859	\$ 1,435,975	\$ 11,185	\$ (2,108,431)	\$ 3,190,588

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

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

Six months ended June 30,	2020	2019
OPERATING ACTIVITIES		
Loss for the period	\$ (702,543)	\$ (392,208)
Adjustments for non-cash items:		
Accretion expense	-	4,458
Interest expense	11,789	16,959
Depreciation expense	4,354	-
Share-based payments	387,820	14,432
Change in fair value of derivative liability	(11,781)	25,081
Unrealized foreign exchange loss	14,421	3,753
Interest earned	(6,275)	-
Changes in working capital items:		
Trade and other receivables	17,468	(19,454)
Inventory	(793,555)	(34,863)
Prepaid expense	24,355	16,243
Accounts payable and accrued liabilities	113,868	1,605
Cash flows used in operating activities	(940,079)	(363,994)
INVESTING ACTIVITIES		
Short-term investments	(1,096,993)	1,500,000
Intangibles	(135,184)	-
Cash flows (used in) provided by investing activities	(1,232,177)	1,500,000
FINANCING ACTIVITIES		
Repayment of related party loans	(9,233)	-
Repayment of promissory notes	-	(125,108)
Proceeds from issuance of shares	2,116,800	17,180
Share issuance costs	(148,176)	-
Proceeds from warrant exercises	34,500	-
Cash flows provided by (used in) financing activities	1,993,891	(107,928)
Change in cash and cash equivalents	(178,365)	1,028,078
Cash and cash equivalents, beginning	378,756	468,969
Cash and cash equivalents, ending	\$ 200,391	\$ 1,497,047
Non-cash transactions:		
Repayment of promissory note interest through issuance of shares	\$ 15,000	\$ -

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

OVATION SCIENCE INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 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 Skininvisible Pharmaceuticals, Inc. (“Skininvisible”). On February 3, 2020, Ovation acquired the exclusive world-wide rights to a DermSafe® Hand Sanitizer, the Company’s first non-cannabis product. The Company’s shares are traded on the Canadian Securities Exchange under the symbol “OVAT”.

The Company’s head office is located at Suite 1140 – 625 Howe street, Vancouver, B.C. V6C 2T6, 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 June 30, 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 August 31, 2020.

OVATION SCIENCE INC.

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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. SHORT-TERM INVESTMENTS

As at June 30, 2020, short-term investments consist of the following guaranteed investment certificates ("GIC"):

- A GIC of \$200,000 (December 31, 2019 - \$600,000), which bears interest at 2.05% (December 31, 2019 – 2.05%) per annum and matures on November 30, 2020.
- A GIC of \$1,500,000 (December 31, 2019 - \$nil), which bears interest at 1.10% (December 31, 2019 – n/a) per annum and matures on May 27, 2021.

The balance includes accrued interest receivable of \$4,293 (2018 - \$1,027). During the quarter ended June 30, 2020, the Company redeemed its GIC of \$400,000 and earned \$3,007 in interest income.

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4. TRADE AND OTHER RECEIVABLES

	June 30, 2020	December 31, 2019
Trade receivables	\$ 18,793	\$ 46,635
GST receivable	19,823	9,449
	\$ 38,616	\$ 56,084

5. PREPAID EXPENSES

	June 30, 2020	December 31, 2019
Prepaid expenses	\$ 32,866	\$ 31,327
Legal retainer	138	26,032
	\$ 33,004	\$ 57,359

6. INVENTORY

	June 30, 2020	December 31, 2019
Finished goods	\$ 571,856	\$ 98,995
Packaging	176,024	8,443
Raw materials	156,807	3,694
	\$ 904,687	\$ 111,132

During the three and six months ended June 30, 2020, the Company incurred \$48,101 and \$147,971 respectively, (2019 - \$nil and \$11,754) in costs of sales related to inventory.

7. LICENSE

On September 29, 2017, the Company entered into a License and Assignment Agreement (the "Assignment Agreement") with Skinvisible Pharmaceuticals, Inc. whereby Skinvisible granted the License to 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 May 2018.

On February 3, 2020, the Company entered into a License Agreement (the "License Agreement"), with Skinvisible, whereby Skinvisible granted Ovation rights to Skinvisible's hand sanitizer with the brand name "DermSafe" or DermSafe PC ("DermSafe"). The License Agreement provides Ovation with the right to extend the License and patent the DermSafe sanitizer by paying a renewal fee of USD\$100,000 in two payments over three and a half years from the date of the License Agreement.

OVATION SCIENCE INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

(Unaudited)

7. LICENSE (Continued)

On June 10, 2020, the Company entered into a License Renewal Agreement (the “Renewal Agreement”) with Skinvisible, whereby Company shall accelerate the renewal payments to Skinvisible totaling USD \$100,000, in exchange for the DermSafe Health Canada Drug Identification numbers, trademarks, clinical data and certain rights to patent to the Company.

A continuity of the license is as follows:

As at December 31, 2019 and 2018	\$ 606,812
Additions	135,184
As at June 30, 2020	\$ 741,996

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.

8. 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	751	751	1,502
At June 30, 2020	16,370	16,370	\$ 32,740
Accumulated amortization:			
At December 31, 2018	\$ -	\$ -	-
Depreciation	965	1,608	2,573
At December 31, 2019	\$ 965	\$ 1,608	\$ 2,573
Depreciation	1633	2,721	4,354
Foreign translation impact	30	51	81
At June 30, 2020	2,628	4,380	\$ 7,008
Net book value			
At December 31, 2019	\$ 14,654	\$ 14,011	\$ 28,665
At June 30, 2020	\$ 13,742	\$ 11,990	\$ 23,732

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2020	December 31, 2019
Accounts payable	\$ 167,513	\$ 34,560
Accrued liabilities	27,250	50,166
Due to related parties (Note 13)	26,726	16,092
	\$ 221,489	\$ 100,818

OVATION SCIENCE INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

(Unaudited)

10. 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.

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		-	6,254	6,254
As at June 30, 2020	\$	100,000	\$ 136,413	\$ 236,413

During the three and six months ended June 30, 2020, interest expense of \$5,950 and \$11,790 respectively (2019 - \$3,740 and \$7,438) and accretion expense of \$nil and \$nil, (2019 - \$575 and \$1,141) was recorded for the convertible notes. As at June 30, 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:

OVATION SCIENCE INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

(Unaudited)

10. CONVERTIBLE NOTES (Continued)

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 June 30, 2020	\$	-

During the period ended June 30, 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.

11. 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 June 30, 2020, 3,774,375 (December 31, 2019 – 5,032,501) shares are held in escrow, to be released by 2021.

Common shares*During the six months ended June 30, 2020:*

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 a cash payment of commissions totaling \$148,176. The commissions fees totaled 7% of the total proceeds. Each unit consists of one common share of the Company and one half of one non-transferable share purchase warrant. 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. The brokers warrants totaled 7% of the total units issued and the fair value of these warrants were determined to be \$121,606 (note 9).

During the six months ended June 30, 2020, the Company issued 76,666 common shares pursuant to the exercise of 76,666 warrants with a weighted average exercise price of \$0.45 per share for proceeds of \$34,500. In connection with the exercise, an amount of \$13,668 was reclassified from reserves to share capital.

During the six months ended June 30, 2020, the Company issued 50,000 common shares to a related party pursuant to the exercise of 50,000 stock options with a weighted average exercise price of \$0.30 per share for proceeds of \$15,000. The proceeds were non-cash and was deducted from accrued interest on a promissory note payable to the related party. In connection with the exercise, an amount of \$981 was reclassified from reserves to share capital.

During the year ended December 31, 2019:

During the year ended December 31, 2019, the company issued 60,000 common shares for the exercise of 60,000 stock options at \$0.30 for cash proceeds of \$18,000.

During the year ended December 31, 2019, the company issued 21,510 common shares for the exercise of 21,510 broker warrants at \$0.45 for cash proceeds of \$9,680.

OVATION SCIENCE INC.

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

11. SHARE CAPITAL

On November 15, 2018, the Company closed its initial public offering consisting of 8,050,000 units at \$0.30 per unit for gross proceeds of \$2,415,000. Each unit consists of one common share of the Company and one-half warrant with each whole warrant entitling the holder to purchase one additional common share of the Company at a price of \$0.45 per share for a period of two years. \$718,157 was allocated to the private placement warrants, which were valued using the Black Scholes Option Pricing model using the following assumptions: share price: \$0.30, expected life: two years, expected volatility: 134.44%, dividend yield: 0%, and risk-free interest rate: 2.21%. In connection with the private placement, the Company incurred \$308,312 in cash transaction costs and \$114,905 in transaction costs related to the issuance of 644,000 broker warrants. The broker warrants entitle the holder to purchase one common share of the Company at a price of \$0.45 per share for a period of two years and were valued using the Black Scholes Option Pricing model using the following assumptions: share price: \$0.30, expected life: two years, expected volatility: 134%, dividend yield: 0%, and risk-free interest rate: 2.21%.

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 June 30, 2020, 3,774,375 common shares remained in escrow.

12. 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.

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(Expressed in Canadian dollars)

(Unaudited)

12. RESERVES (Continued)

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 six months ended June 30, 2020:

On April 6, 2020, a total of 50,000 stock options with an exercise price of \$0.30 were exercised (note 8).

On April 10, 2020, a total of 1,050,000 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.

The stock options were valued using the Black Scholes Option Pricing model using the following weighted average assumptions: share price: \$0.41 expected life: 1.86 years, expected volatility: 128% , dividend yield: 0% , risk-free interest rate: 0.39%. Expected volatility is based on historical price volatility to the extent of the expected life of the option.

Share-based compensation expense for the stock options that vested during the period ended June 30, 2020 was \$387,820 (2019 - \$14,432).

During the year ended December 31, 2019:

On January 8, 2019, 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 January 8, 2019 and expire on January 8, 2021. During the year ended December 31, 2019, the consultant exercised 60,000 stock options at a price of \$0.30 per share for total proceeds of \$18,000. and the remaining 40,000 stock options were cancelled.

On October 8, 2019, the Company granted 300,000 stock options to two directors and a consultant of the Company. Each option granted can be exercised to purchase one common share of the Company at \$0.30 per share. These options vested on October 8, 2019 and expire October 8, 2021.

On December 3, 2019, the Company granted 300,000 stock options to a consultant providing investor relations services. Each option granted can be exercised to purchase one common share of the Company at \$0.30 per share. 100,000 stock options will vest on each of January 2, 2020, February 1, 2020, and March 2, 2020 and expire on December 3, 2020.

On April 10, 2018, the Company granted 1,150,000 stock options to directors, officers and employees of the Company. The options entitle the holders to acquire common shares of the Company at \$0.30 per share and expire on April 10, 2020.

During the year ended December 31, 2019, the Company recorded share-based payment expense of \$94,826 (2018 - \$22,559).

The stock options were valued using the Black Scholes Option Pricing model using the following weighted average assumptions: share price: \$0.29, expected life: 1.57 years, expected volatility: 125%, dividend yield: 0%, risk-free interest rate: 1.62% and fair value of \$0.13.

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(Unaudited)

12. RESERVES (Continued)

A summary of stock option activity for the six months ending June 30, 2020 is as follows:

	Options	Weighted average exercise price
Outstanding, January 1, 2019	1,150,000	\$ 0.30
Granted	700,000	0.30
Exercised	(60,000)	0.30
Cancelled	(40,000)	0.30
Outstanding, December 31, 2019	1,750,000	0.30
Granted	1,450,000	0.41
Exercised	(50,000)	0.30
Expired	(1,100,000)	0.30
Outstanding and exercisable, June 30, 2020	2,050,000	\$ 0.38

As at June 30, 2020, the following stock options were outstanding and exercisable:

Numbers of options	Exercise price	Expiry date
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
1,100,000	0.41	April 13, 2022
200,000	0.50	June 1, 2021
2,050,000		

At June 30, 2020, the weighted-average remaining contractual life of options outstanding is 1.38 years (December 31, 2019 – 0.64 years).

Warrants

In connection to the private placement that closed on May 27, 2020, the Company issued a total of 352,800 brokers warrants exercisable to purchase one common share at \$0.60 per share (note 8).

The brokers warrants were valued using the Black Scholes Option Pricing model using the following weighted average assumptions: share price: \$0.52, expected life: 1.50 years, expected volatility: 152%, dividend yield: 0%, risk-free interest rate: 0.28%. Expected volatility is based on historical price volatility to the extent of the expected life of the warrants. The fair value of the brokers warrants was \$114,547.

A summary of warrant activity for the period ended June 30, 2020 is as follows:

	Warrants	Weighted average exercise price
Outstanding, January 1, 2019	4,669,000	\$ 0.45
Exercised	(21,510)	0.45
Outstanding, December 31, 2019	4,647,490	0.45
Issued	2,872,800	0.60
Exercised	(76,666)	0.45
Outstanding and exercisable, June 30, 2020	7,443,624	\$ 0.51

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12. RESERVES (Continued)

As at June 30, 2020, the following warrants were outstanding:

Numbers of warrants	Exercise price	Expiry date
4,570,824	\$ 0.45	November 15, 2020
2,872,800	0.60	November 26, 2021
7,433,624	\$ 0.51	

As at June 30, 2020, the weighted-average remaining contractual life of warrants outstanding is 0.78 years (December 31, 2019 – 0.88 years).

13. 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

	June 30, 2020	June 30, 2019
Canada/United States	\$ 196,405	\$ 114,867
Foreign countries	232,001	-
	\$ 428,406	\$ 114,867

Total Assets

	June 30, 2020	December 31, 2019
United States	\$ 767,728	\$ 635,477
	\$ 767,728	\$ 635,477

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

14. 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:

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14. RELATED PARTY TRANSACTIONS (Continued)

During the six months ended June 30,		2020		2019
Management fees	\$	185,420	\$	170,089
Director fees		4,000		1,200
	\$	189,420	\$	171,289

Related party transactions and balances

As at June 30, 2020, due to related parties of \$231 (December 31, 2019 - 19,478) consists of accrued interest, management, and directors' fees. As at June 30, 2020, trade and other payables consists of \$26,726 (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 and six months ended June 30, 2020, the Company paid or accrued \$3,000 and \$6,000, respectively, (2019 - \$nil and \$nil) in consulting fees to a Company owned by the CFO's spouse. As at June 30, 2020, the Company owed \$1,050 (December 31, 2019 - \$nil) to this related party.

During the three and six months ended June 30, 2020, the Company paid or accrued \$6,000 and \$12,000, respectively, (2019 - \$nil and \$nil) in rent expenses to a Company controlled by a director and CFO of the Company. As at June 30, 2020, the Company owed \$3,150 (December 31, 2019 - \$nil) to this related party.

During the three and six months ended June 30, 2020, the Company paid or accrued \$22,183 and \$44,366, respectively, (2019 - \$nil and \$nil) in rent expenses to a Company with a common CEO and director. As at June 30, 2020, the Company owed \$nil (December 31, 2019 - \$nil) to this related party.

15. 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.