

OVATION SCIENCE INC.

Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 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)

As at	Note	September 30, 2020	December 31, 2019
ASSETS			
Current assets			
Cash		\$ 93,314	\$ 378,756
Short-term investments	3	1,505,651	601,027
Trade and other receivables	4	168,112	56,084
Prepaid expenses	5	16,851	57,359
Inventory	6	922,293	111,132
		2,706,221	1,204,358
Equipment	8	23,051	28,665
License	7	741,995	606,812
Total assets		\$ 3,471,267	\$ 1,839,835
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and other liabilities	9	\$ 161,384	\$ 100,818
Due to related parties	14	4,410	19,478
Convertible notes	10	-	230,159
Derivative liability	10	-	11,781
Total liabilities		165,794	362,236
Shareholders' equity			
Share capital	11	4,280,458	1,940,692
Reserves	12	1,373,646	941,198
Accumulated other comprehensive income		9,871	1,597
Deficit		(2,358,502)	(1,405,888)
Total liabilities and shareholders' equity		\$ 3,305,473	1,477,599
		\$ 3,471,267	\$ 1,839,835

Nature of business and going concern (Note 1)

Subsequent event (Note 16)

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 September 30,		Nine months ended September 30,	
	Note	2020	2019	2020	2019
Revenue					
Product sales		\$ 74,050	\$ -	\$ 423,919	\$ 20,668
Packaging fees		106,944	78,908	189,238	173,107
		180,994	78,908	613,157	193,775
Cost of sales	6	(38,816)	(4,935)	(186,787)	(16,689)
Gross margin		142,178	73,973	426,370	177,086
Operating expenses					
Management and director fees	14	95,832	91,569	285,252	262,858
Advertising and promotion		-	16,768	-	123,150
Depreciation		2,149	-	6,503	-
Office and general		87,293	67,291	187,824	142,008
Professional fees		56,661	40,987	143,767	94,064
Product development		28,448	21,690	132,723	64,851
Royalty fees		11,402	-	21,557	-
Share-based payments	12	-	-	387,820	14,432
Investor relations		62,948	31,449	147,393	31,449
Bad debt		-	8,751	-	8,751
		344,733	278,505	1,312,839	741,563
Loss from operations		(202,555)	(204,532)	(886,469)	(564,477)
Other income (expenses)					
Interest expense	10	(3,696)	(5,780)	(15,675)	(22,739)
Accretion expense	10	-	(2,090)	-	(6,548)
Interest income		3,736	2,650	10,071	20,638
Change in fair value of derivative liability	10	-	72,304	-	47,224
Foreign exchange loss		2,333	(3,713)	(18,676)	(7,466)
Loss on debt settlement	11	(53,646)	-	(53,646)	-
Gain on expiration of conversion option		-	-	11,781	-
Net loss		\$ (253,828)	\$ (141,161)	\$ (952,614)	\$ (533,368)
Foreign currency translation to reporting currency		(1,314)	-	9,871	-
Net loss and comprehensive loss		(255,142)	(141,161)	(942,743)	(533,368)
Loss per share – basic and diluted					
		\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ (0.02)
Basic and diluted weighted average number of common shares outstanding					
		25,256,902	23,248,050	24,246,096	23,193,485

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	60,000	26,660	(8,660)	-	-	18,000
Warrants exercised	21,510	13,514	(3,834)	-	-	9,680
Share-based payments	-	-	14,432	-	-	14,432
Loss for the period	-	-	-	-	(533,368)	(533,368)
Balance at September 30, 2019	23,234,631	\$ 1,940,692	\$ 860,804	\$ -	\$ (1,103,313)	\$ 1,698,183
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)
Warrants exercised	213,750	134,295	(38,107)	-	-	96,188
Options exercised	350,000	143,871	(38,871)	-	-	105,000
Shares issued for debt settlement	536,455	214,582	-	-	-	214,582
Share-based payments	-	-	387,820	-	-	387,820
Foreign currency translation adjustment	-	-	-	8,274	-	8,274
Loss for the period	-	-	-	-	(952,614)	(952,614)
Balance at September 30, 2020	29,374,836	\$ 4,280,458	\$ 1,373,646	\$ 9,871	\$ (2,358,502)	\$ 3,305,473

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)

Nine months ended September 30,	2020	2019
OPERATING ACTIVITIES		
Loss for the period	\$ (952,614)	\$ (533,368)
Adjustments for non-cash items:		
Accretion expense	-	6,548
Interest expense	10,088	22,739
Depreciation expense	6,503	-
Share-based payments	387,820	14,432
Change in fair value of derivative liability	(11,781)	(47,224)
Loss on debt settlement	53,646	-
Unrealized foreign exchange loss	10,747	7,466
Interest earned	(5,651)	-
Changes in working capital items:		
Trade and other receivables	(112,028)	(6,120)
Inventory	(811,161)	(71,111)
Prepaid expense	40,508	27,974
Accounts payable and accrued liabilities	78,920	(128,792)
Cash flows used in operating activities	(1,305,003)	(707,456)
INVESTING ACTIVITIES		
Property, plant and equipment	-	(98,963)
Short-term investments	(900,000)	1,500,000
Intangibles	(135,183)	-
Cash flows (used in) provided by investing activities	(1,035,183)	1,401,037
FINANCING ACTIVITIES		
Repayment of related party loans	(68)	-
Repayment of promissory notes	(100,000)	-
Proceeds from issuance of shares	1,968,624	27,680
Proceeds from warrant exercises	96,188	-
Proceeds from option exercises	90,000	-
Cash flows provided by (used in) financing activities	2,054,744	27,680
Change in cash	(285,442)	721,261
Cash, beginning	378,756	468,969
Cash, ending	\$ 93,314	\$ 1,190,230
Supplemental Cash Flow Information:		
Repayment of promissory note interest through issuance of shares	\$ 15,000	\$ -
Shares issued for debt settlement	160,936	-
Interest paid	5,520	-
Taxes paid	-	-

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 nine months ended September 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, the Company 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 September, 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 November 30, 2020.

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Notes to the Condensed Consolidated Interim Financial Statements
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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 September 30, 2020, short-term investments consist of a guaranteed investment certificate ("GIC") of \$1,500,000 which bears interest at 1.10% per annum and matures on May 27, 2021. As at September 30, 2020, the balance includes accrued interest receivable of \$5,651.

As at December 31, 2019, short-term-investments consisted of a GIC of \$600,000, which bore interest at 2.05% and matured on November 30, 2020. During the nine months ended September 30, 2020, the Company redeemed the GIC.

During the nine months ended September 30, 2020 the Company earned interest income of \$15,541 on its GIC's.

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4. TRADE AND OTHER RECEIVABLES

	September 30, 2020	December 31, 2019
Trade receivables	\$ 137,618	\$ 46,635
GST receivable	30,494	9,449
	\$ 168,112	\$ 56,084

5. PREPAID EXPENSES

	September 30, 2020	December 31, 2019
Prepaid expenses	\$ 16,851	\$ 31,327
Legal retainer	-	26,032
	\$ 16,851	\$ 57,359

6. INVENTORY

	September 30, 2020	December 31, 2019
Finished goods	\$ 680,415	\$ 98,995
Packaging	166,902	8,443
Raw materials	74,976	3,694
	\$ 922,293	\$ 111,132

During the three and nine months ended September 30, 2020, the Company incurred \$38,816 and \$186,787 respectively, (2019 - \$4,935 and \$16,689) in costs of sales related to inventory.

7. LICENSES

On September 29, 2017, the Company entered into a License and Assignment Agreement (the "Assignment Agreement") with Skinvisible Pharmaceuticals, Inc. whereby Skinvisible granted whereby Skinvisible granted the Company, the exclusive worldwide right to manufacture, distribute, sell, market, sub-license and promote the Skinvisible cannabis and hemp seed oil products including the right to use the subject matter of any Skinvisible patents and trademarks which cover the various products or polymer. The agreement shall remain in effect, except for sublicensees appointed by the Company. The consideration for the Assignment Agreement is \$606,812 (US\$500,000) 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 the Company rights to Skinvisible's hand sanitizer with the brand name "DermSafe" or DermSafe PC ("DermSafe"). The License Agreement provides the Company with the right to extend the License and patent the DermSafe sanitizer by paying a renewal fee of \$132,588 (US\$100,000) in two payments over three and a half years from the date of the License Agreement.

OVATION SCIENCE INC.

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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 \$135,183 (US\$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	135,183
As at September 30, 2020	\$ 741,995

Management will evaluate the useful life of the licenses on at least an annual basis. As at September 30, 2020, there are no indications that the licenses may be impaired.

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	417	417	834
At September 30, 2020	\$ 16,036	\$ 16,036	\$ 32,072
Accumulated amortization:			
At December 31, 2018	\$ -	\$ -	-
Depreciation	965	1,608	2,573
At December 31, 2019	\$ 965	\$ 1,608	\$ 2,573
Depreciation	2,439	4,064	6,503
Foreign translation impact	(21)	(34)	(55)
At September 30, 2020	\$ 3,383	\$ 5,638	\$ 9,021
Net book value			
At December 31, 2019	\$ 14,654	\$ 14,011	\$ 28,665
At September 30, 2020	\$ 12,653	\$ 10,398	\$ 23,051

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9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2020	December 31, 2019
Accounts payable	\$ 102,515	\$ 34,560
Accrued liabilities	46,771	50,166
Due to related parties (Note 13)	12,098	16,092
	\$ 161,384	\$ 100,818

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 (“Note (i)”). 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.

On initial recognition, 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. During the nine-month period ended September 30, 2020, the Company repaid the convertible note of \$100,000 initially issued on June 29, 2018, along with the interest accrued of \$5,520.

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

During the nine months ended September 30, 2020, the Company issued 536,455 shares with a fair value of \$0.40 per share in settlement of the total balance owing of \$133,783 including interest accrued of \$28,442 (note 11). A foreign exchange gain of \$1,289 and a loss on debt settlement of \$53,646 was recorded in connection to this transaction.

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
Repayments	(100,000)	(133,783)	(233,783)
Exchange loss on convertible note	-	3,624	3,624
As at September 30, 2020	\$ -	\$ -	\$ -

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Notes to the Condensed Consolidated Interim Financial Statements
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10. CONVERTIBLE NOTES (Continued)

During the three and nine months ended September 30, 2020, interest expense of \$3,751 and \$15,541 respectively (2019 - \$5,779 and \$19,829) and accretion expense of \$nil and \$nil, (2019 - \$2,090 and \$6,567) was recorded for the convertible notes.

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 September 30, 2020	\$	-

During the nine-month period ended September 30, 2020, the convertible note matured and as a result, the conversion option expired. 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 September 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 nine months ended September 30, 2020:

On April 6, 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.

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).

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Notes to the Condensed Consolidated Interim Financial Statements
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11. SHARE CAPITAL (Continued)

On July 28, 2020, the Company issued 300,000 common shares pursuant to the exercise of 300,000 stock options with a weighted average exercise price of \$0.30 per share for proceeds of \$90,000. In connection with the exercise, an amount of \$37,890 was reclassified from reserves to share capital.

On September 28, 2020, the Company closed a shares for debt transaction where 536,455 common shares were issued at \$0.40 per share to a creditor for settlement of \$133,783 (USD\$100,000) of a convertible promissory note and accrued interest of \$28,442 (USD\$21,260). The Company recorded a foreign exchange gain on the settlement of the debt of \$1,289 and a loss on settlement of debt of \$53,646 in connection to this transaction.

During the nine months ended September 30, 2020, the Company issued 213,750 common shares pursuant to the exercise of 213,750 warrants with a weighted average exercise price of \$0.45 per share for proceeds of \$96,188. In connection with the exercise, an amount of \$38,107 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.

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

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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.

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 nine months ended September 30, 2020:

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 nine-month period ended September 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.

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12. RESERVES (Continued)

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.

A summary of stock option activity for the six months ending September 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	(350,000)	0.30
Expired	(1,100,000)	0.30
Outstanding and exercisable, September 30, 2020	1,750,000	\$ 0.39

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

Numbers of options	Exercise price	Expiry date
300,000	0.30	October 8, 2021
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
1,750,000		

At September 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.

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12. RESERVES (Continued)

A summary of warrant activity for the period ended September 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	(213,750)	0.45
Outstanding and exercisable, September 30, 2020	7,306,540	\$ 0.51

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

Numbers of warrants	Exercise price	Expiry date
4,433,740	\$ 0.45	November 15, 2020
2,872,800	0.60	November 26, 2021
7,306,540	\$ 0.51	

As at September 30, 2020, the weighted-average remaining contractual life of warrants outstanding is 0.53 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

	September 30, 2020	June 30, 2019
Canada/United States	\$ 374,264	\$ 193,775
Foreign countries	238,893	-
	\$ 613,157	\$ 193,775

Total Assets

	September 30, 2020	December 31, 2019
United States	\$ 799,179	\$ 635,477
	\$ 799,179	\$ 635,477

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

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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:

During the nine months ended September 30,	2020		2019	
Management fees	\$	279,252	\$	261,058
Director fees		6,000		1,800
	\$	285,252	\$	262,858

Related party transactions and balances

As at September 30, 2020, due to related parties of \$4,410 (December 31, 2019 - 19,478) consists of management and directors' fees. As at September 30, 2020, trade and other payables consists of \$12,098 (December 31, 2019 - \$16,092) in management fees, royalties, and rent expense owed to related parties. These amounts are non-interest bearing, unsecured and due on demand.

During the three and nine months ended September 30, 2020, the Company incurred \$3,000 and \$9,000, respectively, (2019 - \$nil and \$nil) in consulting fees to a Company owned by the CFO's spouse.

During the three and nine months ended September 30, 2020, the Company incurred \$6,000 and \$18,000, respectively, (2019 - \$nil and \$nil) in rent expenses to a Company controlled by a director and CFO of the Company. As at September 30, 2020, the Company owed \$3,150 (December 31, 2019 - \$nil) to this related party.

During the three and nine months ended September 30, 2020, the Company incurred \$28,239 and \$62,605, respectively, (2019 - \$nil and \$nil) in rent expenses and \$8,789 and \$18,944, respectively, (2019 - \$nil and \$nil) in royalties to a Company with a common CEO and director. As at September 30, 2020, the Company owed \$3,431 (December 31, 2019 - \$nil) to this related party.

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 EVENT

On November 12, 2020, the Company granted 175,000 stock options to consultants of the Company. The options entitle the holders to acquire common shares of the Company at \$0.37 per share, vesting immediately upon grant, and expire on November 12, 2022.