

**OVATION SCIENCE INC.**

Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

*Expressed in Canadian dollars*



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ovation Science Inc.

### Opinion

We have audited the consolidated financial statements of Ovation Science Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.

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**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**  
Vancouver, BC

April 30, 2021



An independent firm  
associated with Moore  
Global Network Limited

**OVATION SCIENCE INC.**  
Consolidated Statements of Financial Position  
(Expressed in Canadian dollars)

As at December 31,	Note	2020	2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 380,621	\$ 378,756
Short-term investment	3	1,157,575	601,027
Trade and other receivables	4	49,935	56,084
Prepaid expenses	5	15,281	57,359
Inventory	6	886,404	111,132
		2,489,816	1,204,358
Licenses	7	741,995	606,812
Furniture and equipment	8	19,922	28,665
<b>Total assets</b>		<b>\$ 3,251,733</b>	<b>\$ 1,839,835</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and other liabilities	9, 14	\$ 143,383	\$ 100,818
Due to related parties	14	-	19,478
Convertible notes	10	-	230,159
Derivative liability	10	-	11,781
<b>Total liabilities</b>		<b>143,383</b>	<b>362,236</b>
<b>Shareholders' equity</b>			
Share capital	11	4,280,458	1,940,692
Reserves	12	1,398,848	941,198
Accumulated other comprehensive income		19,806	1,597
Deficit		(2,590,762)	(1,405,888)
<b>Total shareholders' equity</b>		<b>3,108,350</b>	<b>1,477,599</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 3,251,733</b>	<b>\$ 1,839,835</b>

Nature of business and going concern (Note 1)

**These consolidated financial statements were approved by the Board of Directors on April 30, 2021:**

\_\_\_\_\_  
*"Logan Anderson"* Director      \_\_\_\_\_  
*"Terry Howlett"* Director

The accompany notes are an integral part of these consolidated financial statements.

**OVATION SCIENCE INC.**

Consolidated Statements of Loss and Comprehensive Loss  
(Expressed in Canadian dollars)

<b>Years ended December 31,</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Revenue</b>			
Polymer sales	13	\$ 471,672	\$ 25,615
Packaging fees	13	222,450	276,767
Research services		55,888	-
		750,010	302,382
<b>Cost of sales</b>	6	(201,988)	(18,448)
<b>Gross margin</b>		548,022	283,934
<b>Operating expenses</b>			
Advertising and promotion		26,563	138,274
Bad debt	4	-	8,751
Depreciation	8	8,605	2,573
Investor relations		144,935	31,449
Management and director fees	14	379,475	360,043
Office and general		265,141	261,513
Product development		130,400	80,046
Professional fees		241,023	174,389
Royalty fees		27,227	-
Share-based payments	12,14	413,022	94,826
		1,636,391	1,151,864
<b>Other income (expenses)</b>			
Interest expense	10	(15,645)	(27,263)
Accretion expense	10	-	(6,813)
Interest income	3	13,540	24,866
Change in fair value of derivative liability	10	-	47,064
Foreign exchange loss		(53,825)	(5,867)
Loss on debt settlement	10, 11	(52,356)	-
Gain on expiration of conversion option	10	11,781	-
<b>Net loss</b>		(1,184,874)	(835,943)
Foreign currency translation to reporting currency		18,209	1,597
<b>Net loss and comprehensive loss</b>		\$ (1,166,665)	\$ (834,346)
<b>Loss per share – basic and diluted</b>		\$ (0.04)	\$ (0.05)
<b>Basic and diluted weighted average number of common shares outstanding</b>			
		26,667,047	16,172,978

The accompany notes are an integral part of these consolidated financial statements.

**OVATION SCIENCE INC.**

## Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	<b>Share capital</b>		<b>Reserves</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Deficit</b>	<b>Total shareholders' equity</b>
	<b>Number</b>	<b>Amount</b>				
<b>Balance at December 31, 2018</b>	23,153,121	1,900,518	858,866	-	(569,945)	2,189,439
Options exercised	60,000	26,640	(8,640)	-	-	18,000
Warrants exercised	21,510	13,534	(3,854)	-	-	9,680
Share-based payments	-	-	94,826	-	-	94,826
Foreign currency translation adjustment	-	-	-	1,597	-	1,597
Net loss for the year	-	-	-	-	(835,943)	(835,943)
<b>Balance at December 31, 2019</b>	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	-	-	413,022	-	-	413,022
Foreign currency translation adjustment	-	-	-	18,209	-	18,209
Loss for the year	-	-	-	-	(1,184,874)	(1,184,874)
<b>Balance at December 31, 2020</b>	29,374,836	\$ 4,280,458	\$ 1,398,848	\$ 19,806	\$ (2,590,762)	\$ 3,108,350

The accompany notes are an integral part of these consolidated financial statements.

**OVATION SCIENCE INC.**  
Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)

<b>Years ended December 31,</b>		<b>2020</b>		<b>2019</b>
<b>OPERATING ACTIVITIES</b>				
Net loss for the year	\$	(1,184,874)	\$	(835,943)
Adjustments for non-cash items:				
Accretion expense		-		6,813
Interest expense		10,088		27,263
Share-based payments		413,022		94,826
Loss on debt settlement		52,356		-
Gain on expiration of conversion option		(11,781)		-
Change in fair value of derivative liability		-		(47,064)
Interest earned		(6,437)		(24,866)
Depreciation expense		8,605		2,573
Changes in working capital items:				
Trade and other receivables		6,149		(3,888)
Inventory		(775,272)		(85,604)
Prepaid expense		42,078		11,391
Accounts payable and other liabilities		60,919		(98,402)
<b>Cash flows used in operating activities</b>		<b>(1,385,147)</b>		<b>(952,901)</b>
<b>INVESTING ACTIVITIES</b>				
Furniture and equipment		-		(31,668)
Redemptions (purchases) of short-term investments		(550,000)		926,864
Intangibles		(135,183)		-
<b>Cash flows provided by (used in) investing activities</b>		<b>(685,183)</b>		<b>895,196</b>
<b>FINANCING ACTIVITIES</b>				
Repayment of related party payables		(4,478)		(55,831)
Proceeds from issuance of shares		1,968,624		27,680
Repayment of convertible notes		(100,000)		-
Proceeds from warrant exercises		96,188		-
Proceeds from option exercises		90,000		-
<b>Cash flows provided by (used in) financing activities</b>		<b>2,050,334</b>		<b>(28,151)</b>
Effect of foreign exchange		21,861		(4,357)
Change in cash		1,865		(90,213)
Cash, beginning		378,756		468,969
<b>Cash, ending</b>	<b>\$</b>	<b>380,621</b>	<b>\$</b>	<b>378,756</b>
<b>Supplemental Cash Flow Information:</b>				
Repayment of promissory note interest through issuance of shares	\$	15,000	\$	-
Shares issued for debt settlement		214,582		-

The accompany notes are an integral part of these consolidated financial statements.

## **OVATION SCIENCE INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
(Expressed in Canadian dollars)

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### **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” and the US exchange OTCQB under the symbol “OVATF”.

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 consolidated 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 December 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 consolidated statements 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**

#### **Basis of preparation**

##### *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2021.

##### *Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The consolidated 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.



## OVATION SCIENCE INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
(Expressed in Canadian dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### *Significant estimates*

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application 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.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of trade and other receivables, impairment of non-financial assets, fair value measurement of intangible assets, useful lives of equipment and intangible asset, fair value measurements for financial instruments, fair value measurements for share-based payments and the recoverability and measurement of deferred tax liability.

##### *Significant judgements*

The preparation of financial statements in accordance with IFRS requires the Company to make judgements, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- a) The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- b) The assessment of the Company's functional currency; and
- c) The classification of financial instruments.

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.

#### Short-term investments

Short-term investments consist of fixed term deposits with a maturity of more than three months and less than 1 year at the time of issuance.

#### Financial instruments

##### *Recognition, classification and measurement*

Financial assets are classified and measured based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 contains three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. Financial assets are recognized in the statements of financial position if the Company has a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the asset have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

## OVATION SCIENCE INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
(Expressed in Canadian dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial instruments are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has classified its short-term investments, trade and other receivables, accounts payable and other liabilities, due to related parties, promissory notes and convertible notes as financial assets and financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. The Company has classified its cash as a financial asset measured at fair value through profit and loss.

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company's derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Changes in the fair values of derivative financial instruments are reported in the consolidated statements of loss and comprehensive loss.

#### *Impairment of financial assets*

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivables are always measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis. The remaining financial assets are assessed collectively.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in the statements of comprehensive loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statements of comprehensive loss.

#### *Share capital*

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity, net of tax.

## **OVATION SCIENCE INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Foreign currency translation**

The reporting currency is the Canadian dollar (“CAD”), which is the functional currency of the Company. The functional currency of Ovation Science USA Inc. is the United States dollar (“USD”). Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction, except amortization, which is translated at the rates of exchange applicable to the related assets. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date.

Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the initial transaction. Non-monetary items that are measured at fair values are reported at the exchange rate on the date when fair values are determined. Foreign currency translation differences are recognized in profit or loss, except for differences on the translation of foreign entities to reporting currency on consolidation, which are recognized in other comprehensive income.

On consolidation, the assets and liabilities of entities are translated into the reporting currency at the rate of exchange at the reporting date and the consolidated statements of loss and comprehensive loss are translated at the average exchange rates for the year. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income.

#### **Inventory**

Inventory consists of raw materials, packaging and finished goods for DermSafe, CBD products and polymer materials. Inventory is initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written down to net realizable value.

#### **Cost of sales**

Cost of sales includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight costs, as well as provisions for reserves related to excess or obsolete inventory, or lower of cost and net realizable value adjustments as required.

#### **Convertible notes**

The components of the compound financial instrument (convertible note) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The conversion option that will be settled by the exchange of a fixed amount in cash for a fixed number of equity instruments of the Company is classified as an equity instrument. At the issue date, the liability component is recognized at fair value, which is estimated using the effective interest rate on the market for similar nonconvertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest rate until it is extinguished on conversion or maturity.

The value of the conversion option classified as equity is determined at the issue date, by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of tax effects, and is not revised subsequently. When the conversion option is exercised, the equity component of the convertible notes will be transferred to share capital. No profit or gain is recognized to the conversion or expiration of the conversion option.

## **OVATION SCIENCE INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Share-based payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee. The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Share-based payments are initially recorded to reserves. Subsequently, consideration paid for the shares on the exercise of share-based payments are credited to share capital. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility, interest rate and dividend yield and making assumptions about them.

#### **Valuation of equity units issued in private placements**

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

#### **Loss per share**

Basic loss per share is calculated by dividing the statement of loss and comprehensive loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the statement of loss and comprehensive loss and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and warrants outstanding. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price during the year.

#### **Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of loss and comprehensive loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case the income tax is also recognized in other comprehensive loss or directly in equity, respectively.

##### *Current income tax*

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

## OVATION SCIENCE INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Deferred tax*

Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that future taxable income will be available to allow all or part of the temporary differences to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted and are expected to apply by the end of the reporting period.

Deferred tax assets and deferred income tax liabilities are offset if a legally enforceable right exist to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **Intangible asset**

Intangible asset consists of licenses acquired externally in order to manufacture, distribute, sell, market, sub-license and promote Skinvisible products (the "License"). Acquired intangible assets are initially recognized at fair value based on an allocation of the purchase price. Subsequent to initial recognition, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. An intangible asset in use is amortized on a straight-line basis over their estimated useful life. The expected life of the License is determined to be indefinite. The amortization method, estimated useful life and residual values are reviewed each financial year end or more frequently if required and are adjusted as appropriate.

#### **Equipment**

On initial recognition, furniture and equipment is valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company.

Equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. At each reporting date, the Company assesses whether there is objective evidence that the furniture and equipment is impaired. If such evidence exists, the Company recognizes an impairment loss. The loss is the difference between the carrying value and recoverable value, which is the higher of fair value less costs of disposal and value in use. The carrying amount of the furniture and equipment is reduced by this amount. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event or condition occurring after the impairment was recognized. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

	Years
Computer equipment	3
Furniture and fixtures	5

Depreciation methods, useful lives and residual values are reviewed at each financial period end and adjusted if appropriate.

## **OVATION SCIENCE INC.**

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Impairment**

The carrying amount of the Company's assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Intangible assets with an indefinite useful life are tested annually for impairment. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

#### **Revenue recognition**

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company reports revenue under two revenue categories, being product sales and license fees. Product sales revenue consists of sales and packaging fees and is accounted for as product revenue. Product revenue is recognized when control of the product has transferred under the terms of an enforceable contract. License fee revenue consists of development fees, packaging fees and any other fees associated with the License.

Development and packaging fees are paid based on a percentage of net revenue of products sold by licensees and their affiliates. These sales-based fees are recognized at the later of when the sale occurs and satisfaction of the performance obligation.

#### **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 INVESTMENT**

As at December 31, 2020, short-term investments consist of a guaranteed investment certificate ("GIC") of \$1,150,000 which bears interest at 1.10% per annum and matures on May 27, 2021. As at December 31, 2020, the balance includes accrued interest receivable of \$7,575 (2019 - \$1,027).

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 year ended December 31, 2020, the Company redeemed this GIC.

During the year ended December 31, 2020, the Company earned interest income of \$13,421 (2019 - \$23,839) on its GIC's.

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**4. TRADE AND OTHER RECEIVABLES**

<b>As at December 31,</b>	<b>2020</b>	<b>2019</b>
Trade receivables	\$ 46,838	\$ 46,635
GST receivable	3,097	9,449
	<b>\$ 49,935</b>	<b>\$ 56,084</b>

During the year ended December 31, 2020, the Company recorded a provision for doubtful accounts of \$nil (2019 - \$8,751) for expected credit losses.

**5. PREPAID EXPENSES**

<b>As at December 31,</b>	<b>2020</b>	<b>2019</b>
Prepaid expenses	\$ 12,781	\$ 31,327
Legal retainer	2,500	26,032
	<b>\$ 15,281</b>	<b>\$ 57,359</b>

**6. INVENTORY**

<b>As at December 31,</b>	<b>2020</b>	<b>2019</b>
Finished goods	\$ 659,069	\$ 98,995
Packaging	152,359	8,443
Raw materials	74,976	3,694
	<b>\$ 886,404</b>	<b>\$ 111,132</b>

During the year ended December 31, 2020, the Company incurred \$201,988 (2019 - \$18,448) 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, 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 has received a quarterly minimum packaging fee that started at the beginning of June 2018. On October 28, 2020, the Company amended the Lighthouse Agreement in a one-year agreement which limits their exclusivity to the state of Nevada.

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 \$135,183 (US\$100,000) in two payments over three and a half years from the date of the License Agreement.

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**7. LICENSES (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 June 10, 2020, 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 licenses is as follows:

<b>As at December 31, 2019 and 2018</b>	<b>\$ 606,812</b>
Additions	135,183
<b>As at December 31, 2020</b>	<b>\$ 741,995</b>

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
<b>Cost:</b>			
At December 31, 2018	\$ -	\$ -	\$ -
Additions	15,834	15,834	31,668
Foreign translation impact	(215)	(215)	(430)
<b>At December 31, 2019</b>	<b>15,619</b>	<b>15,619</b>	<b>\$ 31,238</b>
Foreign translation impact	(330)	(330)	(660)
<b>At December 31, 2020</b>	<b>\$ 15,289</b>	<b>\$ 15,289</b>	<b>\$ 30,578</b>
<b>Accumulated amortization:</b>			
At December 31, 2018	\$ -	\$ -	\$ -
Depreciation	965	1,608	2,573
<b>At December 31, 2019</b>	<b>\$ 965</b>	<b>\$ 1,608</b>	<b>\$ 2,573</b>
Depreciation	3,227	5,378	8,605
Foreign translation impact	(196)	(326)	(522)
<b>At December 31, 2020</b>	<b>\$ 3,996</b>	<b>\$ 6,660</b>	<b>\$ 10,656</b>
<b>Net book value</b>			
At December 31, 2019	\$ 14,654	\$ 14,011	\$ 28,665
<b>At December 31, 2020</b>	<b>\$ 11,293</b>	<b>\$ 8,629</b>	<b>\$ 19,922</b>

**9. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

<b>As at December 31,</b>	<b>2020</b>	<b>2019</b>
Accounts payable	\$ 102,566	\$ 34,560
Accrued liabilities	31,754	50,166
Due to related parties (Note 14)	9,063	16,092
	<b>\$ 143,383</b>	<b>\$ 100,818</b>



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**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. During the year ended December 31, 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 year ended December 31, 2020, the Company issued 536,455 shares to settle debt of \$133,783 including interest accrued of \$28,442 (Note 11). A loss on debt settlement of \$52,356 was recorded in connection to this transaction.

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

		<b>Note (i)</b>		<b>Note (ii)</b>		<b>Total</b>
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
<b>As at December 31, 2020</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>

During the year ended December 31, 2020, interest expense of \$15,541, (2019 - \$27,263) and accretion expense of \$nil, (2019 - \$6,813) was recorded for the convertible notes.

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**10. CONVERTIBLE NOTES (Continued)***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, 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 December 31, 2020	\$	-

During the year ended December 31, 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 loss on conversion option of the derivative liability.

**11. SHARE CAPITAL****Authorized share capital**

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value

**Common shares**

*During the year ended December 31, 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. This was a non-cash transaction and was deducted from accrued interest on a promissory note payable to the related party.

On May 27, 2020, the Company issued 5,040,000 units for gross proceeds of \$2,116,800, net \$1,968,624 after a cash payment of commissions totaling \$148,176. Each unit consists of one common share and one-half 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 12).

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 with a fair value of \$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).

During the year ended December 31, 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.

## OVATION SCIENCE INC.

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### 11. SHARE CAPITAL (Continued)

*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 December 31, 2020, 2,516,250 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. 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 year ended December 31, 2020:*

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

## OVATION SCIENCE INC.

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### 12. RESERVES (Continued)

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

On April 10, 2020, a total of 1,100,000 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 entitle the holder to acquire common shares of the Company at \$0.41 per share, vesting immediately on grant, and expire on April 13, 2022.

On June 1, 2020, the Company granted 200,000 stock options to a consultant. These options entitle the holder to acquire common shares of the Company at \$0.41 per share, vesting immediately on grant, and expire on June 1, 2021.

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

The stock options were valued using the Black Scholes Option Pricing model using the following weighted average assumptions: share price: \$0.40 expected life: 1.88 years, expected volatility: 128% , dividend yield: 0% , risk-free interest rate: 0.38%. 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 year ended December 31, 2020 was \$413,022.

*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.

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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**12. RESERVES (Continued)**

A summary of stock option activity for the year ending December 31, 2020 is as follows:

	<b>Options</b>	<b>Weighted average exercise price</b>
Outstanding, December 31, 2018	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	1,625,000	0.41
Exercised	(350,000)	0.30
Expired	(1,100,000)	0.30
Outstanding and exercisable, December 31, 2020	1,925,000	\$ 0.39

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

<b>Numbers of options</b>	<b>Exercise price</b>	<b>Expiry date</b>
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
175,000	0.37	November 12, 2022
1,925,000		

At December 31, 2020, the weighted-average remaining contractual life of options outstanding is 1.15 years (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.

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: 164%, 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 \$121,606 (Note 11).

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

	<b>Warrants</b>	<b>Weighted average exercise price</b>
Outstanding, December 31, 2018	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
Expired	(4,433,740)	0.45
Outstanding and exercisable, December 31, 2020	2,872,800	\$ 0.60

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### 12. RESERVES (Continued)

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

Numbers of warrants	Exercise price	Expiry date
2,872,800	\$ 0.60	November 26, 2021
2,872,800	\$ 0.60	

As at December 31, 2020, the weighted-average remaining contractual life of warrants outstanding is 0.90 years (2019 – 0.88 years).

### 13. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, the sub-licensing and sales of cannabis products that utilize Invisicare®, a patented polymer-based technology for topical and transdermal skin care products as well as the sale of DermSafe hand sanitizer, the Company's first non-cannabis product. 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

During the year ended December 31,	2020	2019
Canada	\$ 171,854	\$ -
United States	395,844	302,382
Asia	130,264	-
Mexico	52,048	-
	\$ 750,010	\$ 302,382

#### Total Long-Lived Assets

As at December 31,	2020	2019
United States	\$ 761,917	\$ 635,477
	\$ 761,917	\$ 635,477

During the year ended December 31, 2020, two customers individually accounted for over 10 percent of the Company's total revenue. One customer approximates 16% or \$122,605 (2019 - 0% or \$nil) of total revenue and is located in Asia. The other customer approximates 32% or \$237,596 (2019 - 100% or \$302,382) in total revenue and is located in the United States.

### 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)**

<b>Year ended December 31,</b>		<b>2020</b>		<b>2019</b>
Management fees	\$	371,475	\$	360,043
Director fees		8,000		5,000
Share-based payments		338,320		35,937
	\$	717,795	\$	400,980

*Related party transactions and balances*

As at December 31, 2020, due to related parties of \$nil (2019 - 19,478) consists of management and directors' fees. As at December 31, 2020, trade and other payables consists of \$9,063 (December 31, 2019 - \$16,092) in directors fees, royalties, consulting fees, expense reimbursements, and rent expense owed to related parties. These amounts are non-interest bearing, unsecured and due on demand.

During the year ended December 31, 2020, the Company incurred \$12,000 (2019 - \$nil) in consulting fees to a Company owned by the CFO's spouse. As at December 31, 2020, the Company owed \$1,050 (2019 - \$nil) to this related party.

During the year ended December 31, 2020, the Company incurred \$24,000 (2019 - \$nil) in rent expenses to a Company controlled by a director and CFO of the Company. As at December 31, 2020, the Company owed \$3,150 (2019 - \$nil) to this related party.

During the year ended December 31, 2020, the Company incurred \$87,175 (2019 - \$) in rent expenses and \$21,282, (2019 -\$nil) in royalties to a Company with a common CEO and director. As at December 31, 2020, the Company owed \$2,339 (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.

**16. FINANCIAL INSTRUMENTS**

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include interest rate risk, credit risk, liquidity risk, and currency risk and price risk.

- a) Interest rate risk: Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As at December 31, 2020, the Company is not exposed to any significant interest rate risk.

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Notes to the Consolidated Financial Statements  
 For the years ended December 31, 2020 and 2019  
 (Expressed in Canadian dollars)

**16. FINANCIAL INSTRUMENTS (Continued)**

- b) Credit risk: Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk exposure is primarily related to its liquid financial assets including cash, short-term investments and accounts receivable. The Company limits exposure to credit risk on liquid financial assets by maintaining its cash and short-term investments with high credit-quality financial institutions and by actively managing and monitoring its receivables. The Company's cash and short-term investments are held with a major Canadian-based financial institution. Receivables consist of trade receivables from customers and goods and services tax due from the government of Canada. The Company actively monitors defaults of customers and incorporates this information into its credit risk controls. It is management's opinion that the Company is not exposed to significant credit risk.
- c) Liquidity risk: Liquidity risk arises from the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company addresses its liquidity through equity financing obtained through the sale of common shares. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. As at December 31, 2020, the Company had cash of \$380,621 to settle current liabilities of \$143,383.
- d) Currency risk: Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2020, the Company has cash of CAD\$365,826, receivables of CAD\$36,729 and accounts payable of CAD\$28,876 which are denominated in United States dollars. Based on current exposures as at December 31, 2020 and assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the United States dollar would result in an gain or loss of approximately CAD\$18,684 in the Company's statements of loss and comprehensive loss.

Fair value: Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying value of Company's financial assets and liabilities as at December 31, 2020 approximate their fair value due to their short-term nature

**17. INCOME TAXES**

Years ended December 31,	2020	2019
Net loss for the year	\$ (1,184,874)	\$ (835,923)
Statutory income tax rate	27%	27%
Income tax benefit computed at the statutory tax rate	(320,000)	(226,000)
Non-deductible expenditures	113,000	29,000
Impact of different foreign statutory tax rates	(27,000)	(1,000)
Unrecognized benefit from income tax losses	234,000	198,000
Income tax recovery	\$ -	\$ -

As at December 31, 2020, the Company has non-capital tax loss carry forwards in Canada of \$1,906,000 which can be applied to reduce future Canadian taxable income and will expire on between 2037 and 2040. In addition, the Company had net operating tax loss carry forwards in the United States of \$176,000 which can be applied to reduce future US taxable income which will have an unlimited expiry period.