



OVATION SCIENCE INC.

Management Discussion & Analysis

For the years ended December 31, 2022 and 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of May 1, 2023 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2022, and the related notes contained therein which have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of Ovation Science Inc. (the "Company" or "Ovation"), unless specifically noted.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the Company's operations. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or its achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. See also "Cautionary Statement Regarding Forward-Looking Information".

DESCRIPTION OF BUSINESS

The Company was incorporated under the Business Corporations Act of British Columbia on July 18, 2017. The Company was established to take advantage of a new business opportunity to use patented Invisicare® technology in the production of skin products containing cannabinoids from cannabis and hemp, including but not limited to THC, CBD and hemp seed oil. Under the terms of the Invisicare Agreement described in detail below, the Company holds the exclusive worldwide right to manufacture, distribute, sell, market, sub-license and promote products formulated with Invisicare®, containing cannabinoids, hemp seed oil or synthetic derivatives of cannabis.

Invisicare® is a patented polymer-based technology for topical and transdermal skin care products. The advantages of products using Invisicare® are enhancement of drug delivery to the skin by delivering greater amounts and enhancing cannabinoid penetration to enter the blood stream as required. The technology also forms a protective bond that holds ingredients on skin resisting rub-off and wash off, is non-occlusive and allows for normal skin respiration and perspiration and the formulations do not contain alcohol, parabens, waxes or other organic solvents.

The Company's business model is to sublicense Invisicare® enhanced product formulations to licensed businesses engaged in the production of cannabis or hemp products for approved markets and/or geographic areas. The Company's first licensee is Lighthouse Strategies, LLC, which held the exclusive license for the United States for licensed dispensaries and non-exclusive outside of dispensaries in the United States. On October 28, 2020, the Company amended the Lighthouse Agreement in an agreement which limits their exclusivity to the state of Nevada. On September 7th, 2022 the Company announced it had entered into a license agreement with Stash House Distribution for the exclusive rights to Ovation's formulations for the states of Oklahoma, Missouri, New Mexico and Mississippi. (the "Stash House License Agreement").

Under the Company's business model, it earns revenue from a number of sources including, licensing fees, product development fees, product royalties, and polymer sales to its licensees.

Since incorporation on July 18, 2017, the Company's activities have focused on developing product lines and entering licensing agreements, including the Lighthouse and Stash House License Agreements. The Company intends to continue licensing with other government licensed companies engaged in the sale of cannabinoid and/or hemp seed oil containing products worldwide.

The Company develops skin care lines containing hemp seed oil and cannabis, and licenses the rights to these formulations to market leaders within specific territories. The Company has the exclusive world-wide rights to all hemp seed oil and cannabis products (hemp and marijuana) developed with Invisicare®, which enhances the delivery of drugs and other ingredients to and through the skin. The Company has developed topical and transdermal creams and lotions made with CBD, THC and combinations thereof plus hemp seed oil. All formulations are formulated with Invisicare® and go through a rigorous pharmaceutical testing process to ensure the formulations are validated throughout the process. The Company does not handle product formulas containing marijuana and the production and testing of marijuana containing products are conducted at the licensed premises of its licensees. As previously discussed, the Company’s business model is also to license the Invisicare® enhanced products to licensed businesses engaged in the production of cannabis or hemp products for certain markets and/or geographic areas.

In April 2019, the Company announced it will be launching its own hemp-derived CBD anti-aging skin care line called ARLO CBD Beauty. ARLO CBD Beauty will initially launch with four products with future line extensions available. This announcement was followed by the results of Ovation’s sunscreen testing. Ovation’s CBD SPF 30 sunscreen passed independent testing for highest claims available: broad-spectrum and 80 minute water-resistance. This product will be added to the ARLO CBD Beauty product line.

To support the Company’s continued efforts to develop science-based products, the Company entered into an exclusive agreement with Skincareguide.com Ltd., a leading international peer-reviewed publisher and an authoritative source of dermatology information for physicians and consumers since 2001, to act as the Company’s Medical Dermatology Advisory Board for cannabis formulated products. The objective of the Medical Dermatology Advisory Board is to provide guidance, along with clinical, scientific, research and strategic advice to the Company as it continues to advance its topical and transdermal cannabis product development.

On May 22, 2019 the Company announced the completion of its second cannabidiol (“CBD”) product line Invibe® MD. Invibe MD is a “health and wellness” product line infused with hemp-derived CBD and delivered by Ovation’s patented skin delivery technology.

On February 13, 2020 the Company announced that it has entered into an extendable three-year, exclusive world-wide licensing agreement with Skininvisible Pharmaceuticals, Inc. to manufacture, market and sell its DermSafe® hand sanitizer. It is the first non-cannabis product distributed by Ovation Science Inc., DermSafe is proven to kill a host of bacteria and viruses, including envelope viruses and it provides an extra level of continued protection since it remains bound to the skin for up to four hours, resisting both wash-off and rub off.

On June 10, 2020, the Company entered into a License Renewal Agreement (the “Renewal Agreement”) with Skininvisible, whereby the Company accelerated the renewal payments in exchange for all rights to the DermSafe product globally, the DermSafe Health Canada Drug Identification numbers, trademarks, clinical data and certain rights to patent to the Company.

On September 7, 2022 the Company announced a second license agreement for four US States; Oklahoma, New Mexico, Missouri and Mississippi, with Stash House Distribution. Stash House is a leading national cannabis manufacturing, sales, and logistics company. Ovation receives a royalty based on wholesale sales in each state. With this agreement, Ovation solidifies its marketing strategy to increase revenues by licensing into new states and activates its growth momentum across North America.

On September 14, 2022 the company announced that the U.S. Patent and Trademark Office (USPTO) granted Ovation a patent entitled “Composition and Method for Transdermal Delivery of Cannabidiol (CBD) and 9-Tetrahydrocannabinol (THC)”; (US Patent Number: 11,439,602), with an expiry of February 2041. This patent is a significant achievement for the Company’s R&D department which uses pharmaceutical drug development methods to optimize the transdermal delivery of topical cannabis products. The patent covers the Company’s innovative transdermal creams formulated with a combination of CBD and THC and delivered by its proprietary drug delivery system Invisicare®. It protects both the composition as well as a method for formulating a transdermal delivery composition based on a desired ratio of CBD to THC through skin tissue. Ovation has also filed for similar patent protection in Canada.

Hemp and CBD regulatory environment in the United States

The Company is directly involved in the Industrial Hemp, hemp seed oil, and CBD marketplace in the State of Nevada and other states which have regulated such activity.

All Industrial Hemp produced and sold by the Company constitutes Industrial Hemp under the 2018 and 2014 Farm Bills, as well as the laws of the states in which it produces and sells such Industrial Hemp and its Products.

The Products will be legal as a matter of federal law because they will constitute hemp as defined in the Agriculture Improvement Act of 2018 (“**2018 Farm Bill**”). As a result, the Products may be legally shipped and transported in interstate commerce as a matter of federal law. The Products will be legal as a matter of the laws of Nevada for the same reason and may be legally offered for retail sale in Nevada.

It is noted, however, that topical products containing CBD fall within the regulatory jurisdiction of the U.S. Food and Drug Administration (“**FDA**”) under the federal Food, Drug, and Cosmetic Act (21 U.S.C. 301 *et seq.*) (“**Food and Drug Act**”). Accordingly, because they will contain CBD, certain of the Products, including the Company’s skin care Products, may be subject to enhanced scrutiny or enforcement action by FDA.

2018 Farm Bill

On December 20, 2018 the 2018 Farm Bill became law in the United States. Under the 2018 Farm Bill, industrial and commercial hemp will no longer be classified as a Schedule I controlled substance in the United States. Under the 2018 Farm Bill, hemp includes the plant *Cannabis sativa L.* and any part of that plant, including seeds, derivatives, extracts, cannabinoids and isomers. To qualify under the 2018 Farm Bill, hemp must contain no more than 0.3 percent of delta-9-tetrahydrocannabinol (THC). Moving forward, the 2018 Farm Bill forever deems hemp an agricultural commodity. As such, federal law enforcement and regulatory officials can no longer mistake hemp for its illicit cousin, marijuana, also a subspecies of the cannabis plant.

The 2018 Farm Bill explicitly allows interstate commerce of hemp which will enable the transportation and shipment of hemp. Ovation expects the removal of hemp as a controlled substance will positively impact the public perception of hemp and sales of its topical and transdermal products containing CBD should increase. In addition, Ovation expects that now that industrial and commercial hemp is federally authorized, the barriers to national distribution have been eliminated and therefore the trend should be product sales expanding nationally in the United States for Ovation and its licensees.

Accordingly, the Drug Enforcement Administration (“**DEA**”) no longer has any possible claim to interfere with interstate commerce involving hemp products. This should give comfort to federally-regulated institutions -- pharmacies, banks, merchant services, credit card companies, e-commerce sites, and advertising platforms -- as well as private retailers, to conduct commerce involving hemp and the hemp product industry.

The U.S. Food & Drug Administration (“**FDA**”) retains exclusive jurisdiction over the regulation of ingestible and topical hemp-derived products, as the 2018 Farm Bill does not amend or modify the Food and Drug Act, section 351 of the Public Health Service Act (42 U.S.C. 301 *et seq.*), or certain authorities of the Commissioner of Food and Drugs or Secretary of the U.S. Department of Health and Human Services.

The 2018 Farm Bill does not, however, pre-empt state or local law. As such, through their regulatory plans, states or tribes may impose separate (and greater) restrictions or requirements on hemp production in their jurisdiction.

Prior to enactment of the 2018 Farm Bill, the Agricultural Act of 2014 (“**2014 Farm Bill**”) regulated the production of hemp at the federal level. Under this regime, states -- through their departments of agriculture -- were authorized to establish agricultural pilot programs for the production of hemp for research purposes, including marketing studies. The 2014 Farm Bill sanctioned, but did not require, states to establish agricultural pilot programs for the growth and cultivation of hemp for research purposes. At least forty-one (41) states, including Nevada, established agricultural pilot programs under the 2014 Farm Bill, some of them with broader permissions (and more sophisticated regulatory frameworks) than others.

The Company's objective is to capitalize on the opportunities presented as a result of the changing regulatory environment governing the industrial hemp, hemp oil and cannabis industry in the State of Nevada and, where permitted, other states in the U.S. Accordingly, there are a number of significant risks associated with the business of the Company. If the FDA takes a position regulating all CBD products intended for human or pet consumption there is a risk that federal authorities may enforce this position, and some or all of the products produced by the business of the Company may be deemed unfit for consumption.

For these reasons, the Company's operations in the U.S. cannabis market may subject the Company to heightened scrutiny by regulators, stock exchanges, clearing agencies and other Canadian authorities.

There can be no assurance that third party service providers, including, but not limited to, suppliers, contractors and banks will not suspend or withdraw services which could negatively impact the business of the Company.

State Law

The Products are also legal as a matter of Nevada law. The Products are derived from hemp lawfully grown and cultivated as part of IHRP and do not contain more than three tenths of one percent (0.3%) THC. Further, the Products will be protected as hemp products and hemp-derived CBD products under Nevada law. As such, they have been removed from scheduled control as marijuana and may be legally distributed and sold as a matter of Nevada law.

Health Canada

On December 22, 2018, Health Canada published in the Canada Gazette, Part I, draft regulations for edible cannabis, cannabis extracts and cannabis topicals. These regulations cover the production and sale of cannabis topicals and permitting their legal sale by October 17, 2019.

This is positive news for Ovation as following legalization of topical CBD and THC products, as Ovation seeks to expand its business into Canada.

Cannabis Industry

The Company indirectly derives a portion of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. federal law. The Company is indirectly involved in the cannabis industry in the United States where local state law permits such activities.

Although certain states and territories of the U.S. authorize medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis is illegal and any such acts are criminal acts under federal law under any and all circumstances under the U.S. Federal Controlled Substances Act. The Company's sublicensees have assured that they are in compliance with state licensing and regulatory frameworks.

Over half of U.S. states have enacted legislation to regulate the sale and use of medical cannabis without limits on THC (as defined herein) while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule II controlled substance under the CSA in the United States and as such, is illegal under federal law in the United States.

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. Unless and until the United States Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, which may adversely affect the current and future investments of the Company in the United States. As such, there are a number of risks associated with the Company's existing and future investments in the United States, and such investments may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. There can be no assurance that this heightened scrutiny will not in lead to the

imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. See "Risk Factors".

There can be no assurance that third party service providers, including, but not limited to, suppliers, subcontractors and banks will not suspend or withdraw services which could negatively impact the business of the Company.

Recreation transdermal cream

On February 19, 2019, the Company announced the creation of a new product category for the cannabis market: a recreational transdermal cream. This first-to-market recreational cannabis product has been formulated to quickly deliver a high-dose of THC into the blood stream (transdermal).

This new product is marketed and distributed in Nevada by Lighthouse Strategies under the brand name BASKiN. This BASKiN product contains 500 milligrams of THC and 50 milligrams of CBD in each 59 ml jar. This product is a game-changer in the cannabis industry and the Company is consistently the leader in this category.

The recreational transdermal cream has been developed using Ovation's drug delivery technology and has the following unique distinctions; Proprietary polymer delivery system delivers high-dose THC to the blood stream; bypassing first-pass through the liver; Patent-pending protection means no other cream can deliver like Ovation's; The unique formula delivers THC transdermally without the use of a patch; it's invisible; significant demand has been established with multiple re-orders; Third-party testing verifies potency of each product; available in Nevada dispensaries and coming soon to other states where legalized.

With over twenty years of topical drug delivery experience, Ovation's management and science team has created a unique pipeline of over twenty-five topical and transdermal cannabis products including CBD, THC and combination products along with a line of anti-aging / beauty products made with CBD.

On May 21, 2019 the Company completed the development of its second cannabidiol ("CBD") infused product line focused on health and wellness Invibe® MD. The product line is infused with hemp-derived CBD and is delivered by Ovation's patented skin delivery technology. This new product line follows the Company's anti-aging skincare product line ARLO CBD Beauty.

Invibe MD will begin with three products: Troubled Skin, Keep Fit Sports Relief and R&R (Rest & Relaxation). The product line has additional products that have completed development and will be launched at a later time.

Invibe MD:

- Invibe MD wellness creams have been developed using Invisicare® drug delivery technology; a technology with over twenty years of research and development in the pharmaceutical industry; specifically dermatology;
- The Invibe MD products are enhanced with hemp-derived CBD to provide the maximum effect; CBD has many benefits when used topically and without the potential side-effects of smoking, vaping or edibles; CBD is non-psychoactive and does not contain THC so it does not get you high;
- All Ovation products are thoroughly tested to ensure product stability and to validate that they deliver the stated amount of high-quality CBD.

There are many benefits to using a topically applied CBD product compared to other methods of delivery. Using products like ARLO CBD Beauty or Invibe MD allows the user to apply the cream or lotion directly on the area affected. The CBD is absorbed into the skin and since it does not have to be digested like oils or edibles, the products work quickly and effectively, focusing right on the area where it is needed.

Statements have not been evaluated by Health Canada or the Food and Drug Administration. These products are not intended to diagnose, treat, cure, or prevent any disease.

The Company's products under license in the USA, remain in the top ten topical cannabis product sold in Nevada dispensaries each year since they launched, according to Headset data, a cannabis analytics company that provides key business intelligence to the cannabis industry.

Ovation's patented skin delivery technology, Invisicare®, is the backbone of all products developed by Ovation Science. It provides exceptional topical and transdermal delivery of CBD and THC to and through the skin; greater than many products on the market according to the Company's research studies.

The continued top rankings of Ovation's product in Nevada will be a catalyst to expansion into other states by new licensees. This will add immediate royalty revenue and shareholder value as our products will have the opportunity to be offered in significantly more dispensaries.

The Company also have interest from potential licensees outside of the USA including Canada and other countries and these opportunities will give Ovation's products the opportunity for global expansion. Ovation products are unique from other infused product companies as the Company leverages its expertise in the pharmaceutical industry to develop highly effective, patent-protected products that have the results to prove it.

Ovation products are used for improved wellness, pain management and even anti-aging, to name a few. Ovation earns revenues from licensing and development fees, royalties and the sale of Invisicare to its licensees. In addition, the Company has its own CBD product lines in beauty as well as health & wellness. Statements have not been evaluated by Health Canada or the Food and Drug Administration. These products are not intended to diagnose, treat, cure, or prevent any disease.

On September 23, 2019 the Company announced that it has launched its e-commerce website www.ArloCBDBeauty.com featuring its anti-aging beauty line ARLO CBD Beauty. The website is designed for US consumers who want to purchase high quality anti-aging products infused with the benefits of CBD.

ARLO CBD Beauty products showcase Ovation's commitment to be a leader in the CBD skin care space and to elevate the standards surrounding the quality and efficacy of topical CBD products available to consumers. The website will serve as a platform to highlight Ovation Science's dedication to the following high standards:

High Quality CBD: Ovation uses only high quality, non-psychoactive CBD (cannabinoid), derived from US grown industrial hemp (with less than .03% THC) so our products are non-psychoactive;

Effective Products Backed By Science: Ovation is dedicated to bring only highly effective products to the market with ingredients that work synergistically to bring you the best possible results.

We Stand Behind Our Products: Customer satisfaction is guaranteed or your money is refunded.

Ovation continues to increase shareholder value by seeking expanded patent protection for its products as well as developing new unique, effective products that can be brought to the market in the US, Canada and globally. Ovation also persists in its negotiations with potential global partners for possible licensing opportunities and joint ventures.

DermSafe® Hand Sanitizer w/o Alcohol

During the year ended December 31, 2020, the Company launched its first non-cannabis product "DermSafe Hand Sanitizer", which uses chlorhexidine gluconate (CHG) as its active ingredient. CHG formulated hand care products including soaps have been used worldwide in hospitals as it has a proven ability to kill both bacteria and viruses. DermSafe binds to the hands and resists wash-off and rub-off for up to 4 hours post application while continuing to kill both bacteria and viruses. On February 3, 2020, the Company acquired the exclusive world-rights to DermSafe® Hand Sanitizer, www.dermsafe.com. During the year ended December 31, 2021, the Company generated revenues in the United States, Mexico and Canada, from DermSafe product sales. In Canada the Company has sold DermSafe online on Amazon.ca. The Company has seen a down-turn in demand recently due to the over-abundance of cheaper alcohol hand sanitizers which it competes with.

COVID-19

In March 2020, the World Health Organization declared the recent outbreak of coronavirus, also known as “COVID-19”, a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.

For Ovation, COVID-19 has had both positive and negative effects on the business.

Due to the mandatory closure of non-essential retail stores and dispensaries and the subsequent decrease in sales in the cannabinoid market, the Company has seen a decrease in sales of its cannabis products in 2021 which has continued in 2022.

Initially the offset of DermSafe sales has made up for where the sales to cannabinoids producers had decreased. In 2022 cannabis sales have begun to rebound and continue to increase. These sales fluctuate depending on Nevada tourism and the Company feels 2023 will have greater sales than 2022 as tourism returns to Nevada and as we see the demand for topical cannabis products once again increase in dispensaries. Furthermore, the Company has an annual minimum fee from its licensee in Nevada and this does help offset any fluctuations of monthly sales. These fees have minimal to no cost of goods and therefore are almost 100% gross profit for the Company.

OVERALL PERFORMANCE

For the year ended December 31, 2022:

As at December 31, 2022, the Company had \$28,901 (2021 - \$647,561) in cash. For the year ended December 31, 2022, the Company generated revenue of \$138,154 (2021 - \$224,949) and a gross profit of \$135,178 (2021 - \$187,995). The Company primarily derived its revenue from its relationship with Lighthouse Strategies, LLC which commenced in April 2018. Total revenues have decreased when compared to revenue generated for the year ended December 31, 2021 primarily as a result of a decrease in sales of Dermsafe as demand was high during the height of the pandemic in early 2021 and has decreased in 2022.

Working capital decreased as at December 31, 2022 to a deficit of \$70,393 from a surplus of \$694,446 for the year ended December 31, 2021. Working capital decreased primarily as a result of the Company’s decline in cash from \$647,561 as at December 31, 2021 to \$28,901 as at December 31, 2022 due to the operating expenses incurred during the year ended December 31, 2022 as well as an increase of \$82,962 in accounts payables and accrued liabilities.

Convertible note:

On November 16, 2022, the Company issued an unsecured convertible note to the Chief Operating Officer (“COO”) and director for \$20,000. The convertible note bears interest at 10% per annum and is due on May 16, 2024. 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 deemed price of \$0.05 per common share. The convertible note includes 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 18% which is the estimated rate that would have been charged for a similar instrument without a conversion feature. The equity component of \$2,102 was measured based on the residual value of the compound instrument as a whole after deducting the amount determined separately for the liability component.

Promissory note:

On December 20, 2022, the Company issued an unsecured promissory note to the COO and director for \$27,242 (USD\$20,000). The promissory note is non-interest bearing and due on December 20, 2023. As the promissory note is non-interest bearing, the initial fair value was estimated at \$23,086 (USD\$16,949) using a market discount rate of 18%. The promissory note is amortized over the term using the effective interest rate method. As at December 31,

2022, the note remains outstanding and interest expense related to the promissory note recorded was \$117. At initial recognition, a gain on the discount of the promissory note of \$4,156 was recorded.

Share capital activity:

During the year ended December 31, 2022:

There was no share capital activity during the year ended December 31, 2022.

During the year ended December 31, 2021:

There was no share capital activity during the year ended December 31, 2021.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth selected financial information for the Company for the fiscal years ended December 31, 2022 and 2021 and should be read in conjunction with the Company’s financial statements and related notes thereto for such periods.

The year-end financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and are expressed in Canadian dollars.

December 31,		2022		2021		2020
Total assets	\$	104,886	\$	769,896	\$	3,251,733
Total non-current financial liabilities	\$	18,063	\$	-	\$	-
Revenues	\$	138,154	\$	224,949	\$	750,010
Loss and comprehensive loss	\$	(791,209)	\$	(2,402,195)	\$	(1,166,665)
Loss per share – Basic and diluted	\$	(0.03)	\$	(0.08)	\$	(0.04)
Weighted average number of common shares outstanding		29,374,836		29,374,836		26,667,047

Total assets as of December 31, 2022 were \$104,886 (2021 - \$769,896). The decrease in total assets is primarily due to the decrease in cash from \$647,561 at December 31, 2021 to \$28,901 at December 31, 2022 as a result of cash outflows from operating activities of \$670,803 during the year ended December 31, 2022.

DISCUSSION OF OPERATIONS

The following table summarizes the results of operations for the years ended December 31, 2022 and December 31, 2021:

		2022		2021
Revenues	\$	138,154	\$	224,949
Gross margin	\$	135,178	\$	187,995
Operating expenses	\$	928,577	\$	2,600,609
Loss from operations	\$	(793,399)	\$	(2,412,614)
Other income (expenses)	\$	(653)	\$	18,837
Loss and comprehensive loss	\$	(791,209)	\$	(2,402,195)

Revenues

Revenues were \$138,154 for the year ended December 31, 2022 compared to revenues of \$224,949 for the year ended December 31, 2021. The Company primarily derived its revenue from its relationship with Lighthouse Strategies, LLC which commenced in April 2018 and the sale of its DermSafe product. Sales of DermSafe have decreased as demand was high during the height of the pandemic and has decreased in 2022.

Loss and comprehensive loss for the year ended December 31, 2022 was \$791,209 (2021 - \$2,402,195). The overall decrease of \$1,610,986 was due to a decrease in operating expenses of \$1,672,032, a decrease of \$52,817 in the Company's gross margin and a \$11,261 increase in foreign currency translation to reporting currency, offset by a decrease in other items of \$19,490.

Gross Margin

Gross margin was \$135,178 for the year ended December 31, 2022 compared to \$187,995 for the year ended December 31, 2021. The decrease in gross margin is primarily due to the decrease in revenues from \$224,949 during the year ended December 31, 2021 to \$138,154 during the year ended December 31, 2022 along with the decrease in cost of sales from \$36,954 to \$2,976, which was primarily a result of a decrease in products sales from \$73,909 to \$9,733.

Operating expenses

Operating expenses for the year ended December 31, 2022, were \$928,577 (2021 - \$ 2,600,609). The decrease is primarily driven by the decrease in write-down of inventory from \$841,490 during the year ended December 31, 2021 to \$1,033 during the year ended December 31, 2022 and the decrease in write-down of intangible asset from \$741,995 during the year ended December 31, 2021 to \$nil during the year ended December 31, 2022. During the year ended December 31, 2021, the Company determined that a write-down of licenses was warranted as it was relying on revenue from Nevada and online sales. As the Company completes negotiations in other states for licensees, the value of the license will be reflected in the increased revenues derived from these new license agreements. The decrease in operating expenses also relates to the decrease in investor relations from \$146,110 to \$48,036 as the Company has decreased its spending during the year ended December 31, 2022 in an effort to conserve its cash resources.

Other items

Other items for the year ended December 31, 2022 were negative \$653 (2021 – \$18,837). The primary reason for the decrease in other items during the year ended December 31, 2022 was due to the \$16,050 decrease in gain on write-off of accounts payables during the year as well as a \$4,713 decrease in interest income as the Company liquidated its short-term investments during the year ended December 31, 2021 which had previously generated interest income.

SUMMARY OF QUARTERLY RESULTS

The condensed consolidated interim financial statements of the Company 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 are expressed in Canadian dollars.

Three months ended,	December 31, 2022 \$	September 30, 2022 \$	June 30, 2022 \$	March 31, 2022 \$
Total revenue	35,579	34,503	29,520	38,552
Net loss	(172,811)	(198,838)	(214,319)	(208,084)
Basic and diluted net loss per share	(0.01)	(0.01)	(0.01)	(0.01)

Three months ended,	December 31, 2021 \$	September 30, 2021 \$	June 30, 2021 \$	March 31, 2021 \$
Total revenue	40,258	34,895	76,303	73,493
Net loss	(1,825,095)	(202,606)	(204,707)	(161,369)
Basic and diluted net loss per share	(0.01)	(0.01)	(0.01)	(0.01)

- i) The Company’s net loss decreased in the three months ended December 31, 2022, as compared to the previous quarter. The decrease is primarily due to a decrease in professional fees from \$40,727 to \$24,547.
- ii) The Company’s net loss decreased in the three months ended September 30, 2022, as compared to the previous quarter. The decrease is primarily due to a decrease in professional fees from \$61,640 to \$40,727.
- iii) The Company’s net loss increased in the three months ended June 30, 2022, as compared to the previous quarter. The increase is primarily due to a decrease in revenue from \$38,552 to \$29,520.
- iv) The Company’s net loss decreased in the three months ended March 31, 2022, as compared to the previous quarter. The decrease is primarily due to the write-down of inventory of \$841,490 and write-down on licenses of \$741,995 in the previous quarter.
- v) The Company’s net loss increased in the three months ended December 31, 2021, as compared to the previous quarter. The increase is primarily due to a write-down on inventory of \$841,490, a write-down on licenses of \$741,995, an increase in product development from \$17,434 to \$39,566, and an increase in professional fees from \$26,282 to \$56,904.
- vi) The Company’s net loss decreased in the three months ended September 30, 2021, as compared to the previous quarter. The decrease is primarily due to a decrease in office and general expenses from \$86,634 to \$65,203, and a decrease in investor relations, from \$54,182 to \$31,819 which is partially offset by an increase in product development from \$2,648 to \$17,434.
- vii) The Company’s net loss increased in the three months ended June 30, 2021, as compared to the previous quarter. The increase is primarily due to an increase in office and general expenses from \$30,029 to \$86,634, and an increase in investor relations, from \$30,091 to \$54,182.
- viii) The Company’s net loss decreased slightly in the three months ended March 31, 2021, as compared to the preceding quarter. This is primarily due to a large decrease in professional fees, from \$97,256 to \$26,328, along with a decrease in the foreign exchange loss, from a loss of \$35,149 in December 31, 2020 three months ended, to a \$514 loss in March 31, 2021, three months ended.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31 2022 the Company had a working capital deficit of \$70,393 (December 31, 2021 – surplus of \$694,446) and cash of \$28,901 (December 31, 2021 - \$647,561). The cash balance has declined due to the operating expenses incurred during the year ended December 31, 2022.

Operating activities

Net cash used in operating activities for the year ended December 31, 2022 was \$670,803 (2021 – \$885,752). The decrease in cash used in operating activities is primarily due to the decrease in net loss for the year from \$2,393,777 during the year ended December 31, 2021 to \$794,052 during the year ended December 31, 2022 along with a decrease in trade and other receivables relating to operating activities of \$36,159 and an increase in accounts payable and accrued liabilities relating to operating activities of \$79,631.

Investing activities

Net cash provided by investing activities for the year ended December 31, 2022 was \$nil (2021 - \$1,157,575). The decrease in cash provided by investing activities relates to the \$1,157,575 redemption of short-term investments during the year ended December 31, 2021 which was \$nil during the year ended December 31, 2022.

Financing activities

Net cash provided by financing activities for the year ended December 31, 2022 was \$47,242 (2021 - \$nil). The increase in cash provided by financing activities relates to \$27,272 of proceeds received for a promissory note and \$20,000 of proceeds received for a convertible note. During the year ended December 31, 2021, there were no financing activities undertaken by the Company.

OFF BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements during the year ended December 31, 2022.

RELATED PARTY TRANSACTIONS

The Company has identified its directors and certain officers as its key management personnel. Current directors and officers of the Company are as follows:

Terry Howlett, Chief Executive Officer (“CEO”) and Director
Logan Anderson, Chief Financial Officer (“CFO”) and Director
Doreen McMorran, Chief Operating Officer (“COO”) and Director
Ian Howard, Director
Joan Chypyha, Director
David Ryan, Head of Investor Relations and Director

The remuneration of directors and key management personnel for the period ended is as follows:

	December 31, 2022		December 31, 2021
Management fees	\$ 359,776	\$	348,725
Director fees	8,000		8,000
	\$ 367,776	\$	356,725

Related party transactions and balances

As at December 31, 2022, accounts payables and accrued liabilities consists of \$100,498 (2021 - \$8,200) in directors fees, royalties, consulting fees, expense reimbursements, accrued interest and rent expense owed to related parties. These amounts are non-interest bearing, unsecured and due on demand.

As at December 31, 2022, trade and other receivables includes \$209 (2021 - \$209) owing from a director of the Company. This amount is non-interest bearing, unsecured and due on demand.

The Company entered into the following related party transactions during year ended December 31, 2022:

- a) Included in management fees, salaries and benefits fees are fees of \$42,000 (2021 - \$42,000) charged or incurred by Amteck Financial Corp., a company controlled by Logan Anderson, the CFO and Director of the Company. Amounts payable as at December 31, 2022 were \$7,643 (2021 - \$nil);
- b) Included in management fees, salaries and benefits are fees of \$156,538 (2021 - \$150,381) charged or incurred by Terry Howlett, the CEO and Director. Amounts payable as at December 31, 2022 were \$60,948 (2021 - \$nil)
- c) Included in management fees, salaries and benefits are fees of \$36,000 (2021 - \$36,000) charged or incurred by David Ryan, Head of Investor Relations and Director of the Company. Amounts payable as at December 31, 2022 were \$6,300 (2021 - \$ nil).
- d) Included in management fees, salaries and benefits are fees of \$125,238 (2021 - \$120,344) charged or incurred by Doreen McMorrان, COO and Director of the Company. Amounts payable as at December 31, 2022 were \$nil (2021 - \$nil).
- e) Included in management fees, salaries and benefits are directors' fees of \$8,000 (2021 - \$8,000) charged or incurred by directors of the Company. Amounts payable as at December 31, 2022 were \$nil (2021 - \$4,000)

Other related party transactions:

- a) During the year ended December 31, 2022, the Company paid or accrued \$12,000 (2021 - \$12,000) in consulting fees to a Company, Wynten Management Corp., owned by the CFO's spouse. Amounts owing as at December 31, 2022 were \$3,150 (2021 - \$1,050).
- b) During the year ended December 31, 2022, the Company paid or accrued \$25,100 (2021 - \$24,000) in rent expenses to a Company, Westbrook Management Inc., controlled by a director and CFO of the Company. Amounts owing as at December 31, 2022 were \$3,150 (2021 - \$3,150).
- c) During the year ended December 31, 2022, the Company paid or accrued \$19,031 (2021 - \$nil) in rent expenses to a Company, Skinvisible Pharmaceuticals Inc., with a common CEO and director. During the year ended December 31, 2022, the Company also paid or accrued \$37 (2021 - \$3,224) in royalties to Skinvisible Pharmaceuticals Inc. Amounts owing as at December 31, 2022 were \$19,060 (2021 - \$nil).
- d) On November 16, 2022, the Company issued an unsecured convertible note to Doreen McMorrان, COO and Director for \$20,000. The convertible note bears interest at 10% per annum and is due on May 16, 2024. 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 deemed price of \$0.05 per common share. During the year ended December 31, 2022, the Company recorded \$247 in interest expense in relation to the convertible note. At December 31, 2022, the Company owed Doreen McMorrان, COO and Director \$18,063 for the convertible note and \$247 for accrued interest, which is included in the amount due to related parties at December 31, 2022.
- e) On December 20, 2022, the Company issued an unsecured promissory note to Doreen McMorrان, COO and Director for \$27,242 (USD\$20,000). The promissory note is non-interest bearing and due on December 20, 2023. During the year ended December 31, 2022, the Company recorded \$117 in interest expense and a gain on discount of promissory note of \$4,156 in relation to the promissory note. At December 31, 2022, the Company owed Doreen McMorrان, COO and Director \$23,073 for the promissory note, which is included in the amount due to related parties at December 31, 2022.

DISCLOSURE OF OUTSTANDING SECURITIES DATA

As at December 31, 2022 and the date of this MD&A, the total number of outstanding common shares and stock options are 29,374,836 and nil, respectively.

EVENTS AFTER THE REPORTING PERIOD

On February 2, 2023, the Company issued an unsecured convertible note to a member of key management personnel for USD\$10,000. USD\$5,000 of the proceeds were received on February 2, 2023 and the remaining USD\$5,000 of proceeds were received on February 16, 2023. The convertible note bears interest at 10% per annum and is due on August 2, 2024. 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 deemed price of \$0.05 per common share. As the note is issued in a currency different from the currency of the conversion feature, 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.

On February 23, 2023, the Company issued an unsecured convertible note to a member of key management personnel for USD\$13,000. The convertible note bears interest at 10% per annum and is due on August 23, 2024. 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 deemed price of \$0.05 per common share. As the note is issued in a currency different from the currency of the conversion feature, 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.

On March 6, 2023, the Company issued an unsecured convertible note to a Company controlled by a member of key management personnel for \$14,000. The convertible note bears interest at 10% per annum and is due on March 6, 2024. 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 deemed price of \$0.05 per common share. The convertible note includes both a liability component for the contractual cash flows and an equity component for the conversion feature.

PROPOSED TRANSACTIONS

The Company does not have any proposed transactions.

FINANCIAL INSTRUMENTS

The Company has classified its trade and other receivables, accounts payable and other liabilities, convertible note, promissory note, and due to related parties 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.

CHANGES IN ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements are in Note 2 of the consolidated financial statements for the year ended December 31, 2022.

Initial adoption of new accounting standards

Adoption of new accounting standards have been disclosed in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2022.

Future accounting standards issued but not yet in effect

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 of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Pronouncements that may have a significant impact to the Company have been disclosed in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2022.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

ADDITIONAL INFORMATION

Additional information and the documents filed with the Canadian securities regulatory authorities are available at the Company's profile on <http://www.sedar.com> and on the Company's website <http://ovationscience.com/>