OVATION SCIENCE INC.

Management Discussion & Analysis

For the years ended December 31, 2023 and 2022

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 6, 2024 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2023, 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® skin delivery technology in the production of topical and transdermal 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. Since incorporation, the Company's activities have focused on developing product lines and entering into licensing agreements. In addition to its current licenses and distributors described below, the Company continues to license its product formulations to government licensed companies engaged in the sale of cannabinoid products as well as private-label distributors worldwide. In addition to its existing licenses and distributors outlined below, the Company persists in licensing its product formulations to government-authorized enterprises involved in cannabis product sales, as well as to private-label distributors globally.

Locations

The Company is headquartered in Vancouver, British Columbia, Canada with our Research and Development Division, Ovation Science USA Inc., located in Las Vegas Nevada. A detailed description of our products, corporate history, and our business model can be found below.

Business Model

The Company's business model is to sublicense its Invisicare® enhanced product formulations to licensed businesses engaged in the production of cannabis or hemp products for approved markets and/or geographic areas and to sell finished products direct to consumers as well as established distributors / private label clients.

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 as well as revenue from finished products when sold to consumers or private-label distributors.

Agreements and Recent Developments

As of December 31, 2023, the Company had four licenses in place including MidWest Roots in Missouri; Planet 13 in Nevada; PA Options for Wellness in Pennsylvania and Stash House Distribution for Oklahoma, New Mexico and Mississippi with In addition, the Company has two Supply and Distribution Agreements including Golfer's CBD Ltd. and VenWell; both online US marketers.

On November 2nd, 2023**,** Ovation Science announced the signing of an exclusive licensing agreement for Ovation's topical / transdermal formulations for the state of Missouri. The Company's new licensee is MidWest Roots, LLC ("MidWest"); a company with a 65,000 square foot cannabis processing facility; one of the largest in Missouri. Under the terms of the Agreement, MidWest will be responsible for all regulatory, manufacturing, marketing, sales and distribution activities for Ovation's formulations in the state of Missouri. Ovation will receive royalty income based on wholesale sales to dispensaries. Missouri is approved for adult-use and is growing rapidly, with over 200 dispensaries, and the sixth largest market in the USA.

On September 11, 2023 Ovation announced the signing of an exclusive licensing agreement with Planet 13 Holdings, Inc. (CSE:PLTH | OTCQX:PLNHF) ("Planet 13"), a leading vertically-integrated multi-state cannabis company, for the rights to Ovation's topical/transdermal formulations for the state of Nevada. Under the terms of the agreement, Planet 13 will have the exclusive manufacturing, sales and marketing rights for Ovation's topical/transdermal products for Nevada. Ovation will receive royalties based on wholesale sales. Planet 13 owns and operates the world's largest cannabis dispensary that has become a must-see destination for cannabis connoisseurs and tourists from around the world. Planet 13's 112,000 square foot SuperStore and entertainment complex is located just off The Strip in Las Vegas. Planet 13 accounts for just under 9-percent of cannabis dispensary revenue for the entire state of Nevada. In conjunction with this announcement, the Company announces the termination of the License Agreement with Light House Strategies, LLC for the state of Nevada which was entered into on November 10, 2017.

In September 2023, Ovation updated a previous agreement. On September 7th, 2022 Ovation announced it has entered into an exclusive licensing agreement for its cannabis formulations for the states of Oklahoma, Missouri, New Mexico and Mississippi with Stash House Distribution ("Stash House"). Stash House is a leading national cannabis manufacturing, sales, and logistics company. Ovation will receive a royalty based on wholesale sales in each state. As of September 2023, the Company has removed Missouri from this license.

On May 24, 2023, the Company announced it has entered into an exclusive licensing agreement with PA Options for Wellness Inc. ("PA Options") for Pennsylvania. PA Options, founded in 2014, has nine dispensaries doing business as Vytal Options. Ovation's products (co-branded as Invibe® MD and Vytal Options) will be sold through these dispensaries and through PA Options' extensive wholesale channels. Ovation will receive a royalty based on sales. This is Ovation's first licensee in the North East and is part of the Company's strategy to partner with leading US cannabis companies.

On March 28, 2023, the Company announced it has signed a Supply and Distribution Agreement with Golfer's CBD Ltd., an international CBD brand focused on the health and wellness of golfers around the world. The agreement covers the rights in the golf market for the United States, the United Kingdom and Europe.

On December 7, 2023, Ovation Science entered into a Supply and Distribution Agreement with Efficiency Consultants Inc., (dba VenWell) as a non-exclusive distributor in retail and ecommerce markets in the United States. They began distributing the Company's CBD health and wellness products under the brand VenWell in the first quarter of 2024.

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.

On February 13, 2020 the Company announced that it has entered into an extendable three-year, exclusive world-wide licensing agreement with Skinvisible 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 Skinvisible, 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. Due to the over supply of alcohol-based hand sanitizers, the Company currently does not manufacture or market DermSafe.

The Company continues to seek potential licensees for its cannabis formulations outside of the USA including Canada and other countries.

Products

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.

Invisicare is a patented polymer-based technology for topical and transdermal skin care products. Leveraging over two decades of pharmaceutical research and development, Ovation's Invisicare, ensures enhanced cannabinoid delivery for superior patient outcomes. Invisicare enables substantially more CBD and THC and other cannabinoids to be delivered to and through the skin, which translates into better results for patients. 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 has developed over thirty topical and transdermal creams and lotions made with CBD, THC and combinations thereof as well as 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.

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.

The Company licenses out its CBD-THC combination formulations including various ratios from one to one to a high-dose THC which is one times CBD and ten times THC. These transdermal creams bring CBD and THC into the blood stream; bypassing first-pass through the liver.

The Company also sells two of its own hemp-derived CBD lines. Invibe® MD is a "health and wellness" product line infused with hemp-derived CBD and delivered by Ovation's patented skin delivery technology. In addition, it sells its own anti-aging skin care line called ARLO CBD Beauty. ARLO CBD Beauty launched with four products with future line extensions available including Ovation’s hemp oil sunscreen. 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 in the future. These CBD product lines are also sold direct to consumers as well as private-label to distributors.

Invibe MD product line has 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. The Company’s ecommerce website is www.InvibeMD.com .

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 also has an 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; providing 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.

<u>DermSafe® Hand Sanitizer w/o Alcohol</u>

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 saw a down-turn in demand due to the over-abundance of cheaper alcohol hand sanitizers and the decrease in COVID cases and therefore the Company decided to cease selling DermSafe.

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.

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.

OVERALL PERFORMANCE

For the year ended December 31, 2023:

As at December 31, 2023, the Company had $48,849 (December 31, 2022 - $28,901) in cash. For the year ended December 31, 2023, the Company generated revenue of $61,934 (2022 - $138,154), respectively. Gross margin for the year ended December 31, 2023 was $54,100 (2022 - $135,178), respectively. The Company primarily derived its revenue from its relationship with Lighthouse Strategies, LLC which commenced in April 2018.

Working capital decreased as at December 31, 2023 to a deficit of $636,038 from a deficit of $70,393 for the year ended December 31, 2022. Working capital decreased primarily as a result of the Company's increase in accounts payable and accrued liabilities from $146,703 as at December 31, 2022 to $473,852 as at December 31, 2023.

Operating expenses

Operating expenses for the year ended December 31, 2023 were $760,061 (2022 - $928,577). The decrease is primarily due to a decrease in investor relations, which is partially offset by an increase in office and general expenses.

Other items

Other items for the year ended December 31, 2023 were $107,188 (2022 – $653). The primary reason for the increase in other items during the year ended December 31, 2023 is due to a loss on derivative liability of $34,877, write-off of trade and other receivables of $61,287, and interest expense of $31,080 compared to $Nil, $52 and $588 during the year ended December 31, 2022.

Convertible notes:

On November 16, 2022, the Company issued an unsecured convertible note to a member of key management personnel 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.

On February 2, 2023, the Company issued an unsecured convertible note to the COO and director for $13,312 (USD$10,000). $6,656 (USD$5,000) of the proceeds were received on February 2, 2023 and the remaining $6,656 (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. The value of the derivative liability was calculated as $4,619.

On February 23, 2023, the Company issued an unsecured convertible note to the COO and director for $17,306 (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. The value of the derivative liability was calculated as $3,527.

On March 6, 2023, the Company issued an unsecured convertible note to a Company controlled by the Chief Financial Officer ("CFO") and director 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. 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 $971 was measured based on the residual value of the compound instrument as a whole after deducting the amount determined separately for the liability component.

On April 26, 2023, the Company issued an unsecured convertible note to the COO and director for $34,058 (USD$25,000). The convertible note bears interest at 10% per annum and is due on October 26, 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. The value of the derivative liability was calculated as $4,745.

On May 23, 2023, the Company issued an unsecured convertible note to a Company controlled by the Chief Financial Officer ("CFO") and director for $10,000. The convertible note bears interest at 10% per annum and is due on November 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. 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 $1,050 was measured based on the residual value of the compound instrument as a whole after deducting the amount determined separately for the liability component.

On May 31, 2023, the Company issued an unsecured convertible note to the COO and director for $13,312 (USD$10,000). The convertible note bears interest at 10% per annum and is due on November 30, 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. The value of the derivative liability was calculated as $2,513.

On July 6, 2023, the Company issued an unsecured convertible note to the COO and director for $33,370 (USD$25,000). The convertible note bears interest at 10% per annum and is due on January 6, 2025. 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. The value of the derivative liability was calculated as $6,338.

On July 19, 2023, the Company issued an unsecured convertible note for $26,340 (USD$20,000). The convertible note bears interest at 10% per annum and is due on January 19, 2025. 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 fothe 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 $6,959 was measured based on the residual value of the compound instrument as a whole after deducting the amount determined separately for the liability component.

On December 8, 2023, the Company issued an unsecured convertible note to a member of key management personnel for $20,461. The convertible note bears interest at 10% per annum and is due on June 8, 2025. 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 $2,151 was measured based on the residual value of the compound instrument as a whole after deducting the amount determined separately for the liability component.

Share capital activity:

During the year ended December 31, 2023:

The Company issued 129,845 shares valued at $2,597 to settle liabilities, resulting in a gain of $3,895.

The Company issued 390,000 shares of common stock to it former directors for settlement of debt, resulting in a gain of $11,700.

On December 5, 2023, the Company closed a public offering consisting of 4,000,000 units at $0.05 per unit for gross proceeds of $200,000. Each unit consists of one common share of the Company and one warrant with each whole warrant entitling the holder to purchase one additional common share of the Company at a price of $0.05 per share for a two years. As part of the private placement, the Company issued broker warrants valued at $19,600 using the Black Scholes Option Pricing model using the following assumptions: share price: $0.05, expected life: two years, expected volatility: 183.00%, dividend yield: 0%, and risk-free interest rate: 4.69%.

During the year ended December 31, 2022:

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

SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected financial information for the Company for the fiscal years ended December 31, 2023 and 2022 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,		**2023**		**2022**		**2021**
Total assets	$	76,888	$	104,886	$	769,896
Total non-current financial liabilities	$	67,783	$	18,063	$	-

Revenues	$	61,934	$	138,154	$	224,949
Loss and comprehensive loss	$	(805,421)	$	(791,209)	$	(2,402,195)
Loss per share – Basic and diluted	$	(0.03)	$	(0.03)	$	(0.08)
Weighted average number of common shares outstanding		30,321,336		29,374,836		29,374,836

Total assets as of December 31, 2023 were $76,888 (2022 - $104,886). The decrease in total assets is primarily due to the decrease in accounts receivable from $60,391 at December 31, 2022 to $5,077 at December 31, 2023.

DISCUSSION OF OPERATIONS

The following table summarizes the results of operations for the years ended December 31, 2023 and December 31, 2022:

		2023		2022
Revenues	$	61,934	$	138,154
Gross margin	$	54,100	$	135,178
Operating expenses	$	760,061	$	928,577
Loss from operations	$	(705,961)	$	(793,399)
Other income (expenses)	$	(107,188)	$	(653)
Loss and comprehensive loss	$	(805,421)	$	(791,209)

REVENUES

Revenues were $61,934 for the year ended December 31, 2023 compared to revenues of $138,154 for the year ended December 31, 2022. 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 through 2023.

Loss and comprehensive loss for the year ended December 31, 2023 was $805,421 (2022 - $791,209). The overall increase of $14,212 is due to a increase in other expenses of $106,535

GROSS MARGIN

Gross margin was $54,100 for the year ended December 31, 2023 compared to $135,178 for the year ended December 31, 2022. The decrease in gross margin is primarily due to the decrease in revenues from $138,154 during the year ended December 31, 2022 to $61,934 during the year ended December 31, 2023 along with the increase in cost of sales from $2,976 to $7,834, which was primarily a result of a increase in products sales from $9,733 to $28,192.

OPERATING EXPENSES

Operating expenses for the year ended December 31, 2023, were $760,061 (2022 - $928,577). The decrease is primarily driven by the decrease in investor relations from $48,036 during the year ended December 31, 2022 to $Nil during the year ended December 31, 2023 and the decrease in professional fees from $178,358 during the year ended December 31, 2022 to $113,577 during the year ended December 31, 2023.

OTHER ITEMS

Other items for the year ended December 31, 2023 were negative $107,188 (2021 – $653). The primary reason for the increase in other items during the year ended December 31, 2023 was due to the $30,492 increase in interest expense during the year as well as a $34,877 increase in loss on derivative liability

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,	March 31, 2023 $	June 30, 2023 $	September 30, 2023 $	December 31, 2023 $
Total revenue	40,691	2,037	4,385	14,281
Net loss	$(201,497)	$ (255,075)	$ (201,497)	$ (182,634)
Basic and diluted net loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

Three months ended,	March 31, 2022 $	June 30, 2022 $	September 30, 2022 $	December 31, 2022 $
Total revenue	35,579	34,503	29,520	38,555
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)

i) The Company's net loss decreased in the three months ended December 31, 2023, 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 increased in the three months ended September 30, 2023, as compared to the previous quarter. The increase is primarily due to a increase in changes in derivative liability from $3,555 to $22,257.

iii) The Company's net loss increased in the three months ended June 30, 2023, as compared to the previous quarter. The increase is primarily due to a increase in professional fees from $34,200 to $57,153.

iv) The Company's net loss decreased in the three months ended March 31, 2023, as compared to the previous quarter. The decrease is primarily due to a decrease in professional fees from the previous quarter.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2023 the Company had a working capital deficit of $636,038 (December 31, 2022 – deficit of $70,393) and cash of $48,849 (December 31, 2022 - $28,901). The cash balance has decreased due increased expenses and a decrease in revenue during the year ended December 31, 2023.

Operating activities

Net cash used in operating activities for the year ended December 31, 2023 was $336,023 (December 31, 2022 – $670,803). The decrease in cash used in operating activities is primarily due to the increase in the movement in accounts payable and accrued liabilities for the from a positive movement of $79,631 during 2022 to a positive movement of $346,151 during 2023.

Investing activities

Net cash provided by investing activities for the nine months ended December 31, 2023 was $Nil (2022 - $Nil).

Financing activities

Net cash provided by financing activities for the year ended December 31, 2023 was $356,157 (2022 - $47,242). The increase in cash provided by financing activities relates to $182,157 of proceeds received for the convertible notes and $200,000 in cash received for common stock. During the year ended December 31, 2022, there was $20,000 in proceeds for common stock and $27,242 in cash received for the issuance of convertible notes.

OFF BALANCE SHEET ARRANGEMENTS

The Company did not have any off-balance sheet arrangements during the year ended December 31, 2023.

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 (resigned)
Doreen McMorran, Chief Operating Officer ("COO") and Director
Ian Howard, Director
Joan Chypyha, Director
David Ryan, Head of Investor Relations and Director (resigned)
Shane Dungey, Director (as of October 2023)
Ron Stern, Director (as of October 2023)

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

	December 31, 2023		December 31, 2022
Management fees	264,591	$	359,776
Share-based payments	31,900		-
Director fees	10,000		8,000
	306,491	$	367,776

Related party transactions and balances

As at December 31, 2023, accounts payable and other liabilities consists of $398,876 (2022 - $100,498) 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, 2023, trade and other receivables includes $0 (2022 - $209) owing from a director of the Company. This amount is non-interest bearing, unsecured and due on demand.

During the year ended December 31, 2023, the Company incurred $7,200 (2022 - $12,000) in consulting fees to a Company owned by the former CFO's spouse. As at December 31, 2023, the Company owed $4,987 (2022 - $3,150) to this related party.

During the year ended December 31, 2023, the Company incurred $19,031 (2022 - $25,001) in rent expenses to a Company controlled by a former director and CFO of the Company. As at December 31, 2023, the Company owed $7,087 (2022 -$3,150) to this related party.

During the year ended December 31, 2023, the Company incurred $125,697 (USD$93,473) (2022 - $19,031) in rent expenses to a Company with a common CEO and director. As at December 31, 2023, the Company owed $54,469 (USD$41,184) (2022 - $19,060) to this related party.

On November 16, 2022, the Company issued an unsecured convertible note to the COO and director for $20,000 (Note 10). 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, 2023, the Company recorded $1,388 (2022 - $Nil) in interest expense in relation to the convertible note. At December 31, 2023, the Company owed $19,451 (December 31, 2022 - $18,063) for the convertible note and $2,247 (December 31, 2022 - $247) for accrued interest to the COO and director.

On December 20, 2022, the Company issued an unsecured promissory note to the COO and director for $27,242 (USD$20,000) (Note 9). The promissory note is non-interest bearing and due on December 20, 2023. During the year ended December 31, 2023, the Company recorded $4,144 (2022 - $Nil) in interest expense. At December 31, 2023, the Company owed $22,541 (December 31, 2022 - $23,072) to the COO and director for the promissory note.

During the year ended December 31, 2023, the Company issued unsecured convertible notes to COO and director, and former CFO and director in the amount of $111,358 (USD$83,000) (Note 8). The convertible notes bear interest at 10% per annum and are due 18 months from their issuance. 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 shares. During the year ended December 31, 2023, the Company recorded $6,822 (2022 - $Nil) in interest expenses in relation to the convertible notes. At December 31, 2023, the Company owed $97,583 (December 31, 2022 - $Nil) for the convertible notes, which included $8,703 (2022 - $Nil) for accrued interest.

During the year ended December 31, 2023, the Company issued unsecured convertible notes to COO and a company controlled by a the former Chief Financial Officer ("CFO") and director $44,461. The convertible notes bear interest at 10% per annum and are due within 12-18 months from their issuance. At anytime after the 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, 2023, the Company recorded $1,528 (2022 - $Nil) in interest expenses in relation to the convertible note. At December 31, 2023, the Company owed $32,240 (December 31, 2022 - $Nil) for the convertible notes, which included $1,262 (2022 - $Nil) for accrued interest.

DISCLOSURE OF OUTSTANDING SECURITIES DATA

As at December 31, 2023 and the date of this MD&A, the total number of outstanding common shares and stock options are 33,894,681 and 2,600,000, respectively.

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 notes, 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, 2023.

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, 2023.

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 consolidated 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, 2023.

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/