

# TITAN MEDICAL

TITAN MEDICAL INC.

Management's  
Discussion and Analysis  
for the three and six months ended  
June 30, 2024

August 15, 2024

## INTRODUCTION

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of August 15, 2024 and should be read in conjunction with the unaudited and unreviewed condensed interim consolidated statements of financial position and the related notes thereto for the three and six months ended June 30, 2024 (the "**Interim Financial Statements**") of the Company and the annual audited financial statements for the year ended December 31, 2023 (the "**Annual Financial Statements**") of Titan Medical Inc. (referred to hereinafter as "**Titan**", the "**Company**", "**we**", "**us**" and "**our**"). The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") 34, Interim Financial Reporting ("**IAS 34**") as issued by the International Accounting Standards Board.

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of US dollars except for share and earnings (loss) per share data which is reported in number of shares and US dollars respectively. The tables and charts included in this document form an integral part of this MD&A.

The common shares of the Company (the "**Common Shares**") are listed under the symbol "**TMD**" on the Toronto Stock Exchange (the "**TSX**") and trade on the OTC Markets under the symbol "**TMDIF**".

This MD&A has been prepared with reference to National Instrument 51-102 – Continuous Disclosure Obligations. Additional information related to Titan, including our Annual Information Form ("**AIF**") for the year ended December 31, 2023, is available via our website at [www.titanmedicalinc.com](http://www.titanmedicalinc.com) and on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

This MD&A includes references to the Company's trade-marks and trade names, such as Titan, Titan Medical, and Enos, some of which may be protected under applicable intellectual property laws of one or more countries and which the Company believes is its property. Solely for convenience, the Company's trade-marks referred to in this MD&A may appear without the TM or ® symbols, but such references are not intended to indicate, in any way, that the Company will not assert, to the fullest extent under applicable law, its rights to these trade-marks and trade names.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion other than statements of historical facts that address future events, developments, or transactions that the Company expects, are forward-looking statements. These forward-looking statements are made as of the date of this MD&A. Forward-looking statements are frequently, but not always, identified by words such as "expect", "anticipate", "estimate", "may", "could", "might", "will", "would", "should", "intend", "believe", "target", "budget", "plan", "strategy", "goals", "objectives", "predicts"; "potential", "projects", "possible", "milestones", "projection" or the negative of any of these words and similar expressions, although these words may not be present in all forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "*Risk Factors*" in the AIF. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and, other than as required by law, the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are based on a number of assumptions, which may prove to be incorrect, including but not limited to the assumptions discussed in the section entitled

“Caution Regarding Forward-Looking Statements” in the Company’s AIF. Accordingly, readers should not place undue reliance on forward-looking statements.

This MD&A also includes market data and forecasts. Although the Company is responsible for all of the disclosure contained in this MD&A, in some cases the Company relies on and refers to market data and certain industry forecasts that were obtained from third party surveys, market research, consultant surveys, publicly available information and industry publications and surveys that it believes to be reliable. Unless otherwise indicated, all market and industry data and other statistical information and forecasts contained in this MD&A are based on independent industry publications, reports by market research firms or other published independent sources and other externally obtained data that the Company believes to be reliable. Any such market data, information or forecast may prove to be inaccurate because of the method by which it was obtained or because it cannot always be verified with complete certainty given the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties, including those discussed in the AIF under the heading “*Risk Factors*”. As a result, although the Company believes that these sources are reliable, it has not independently verified the information.

The sections of the AIF titled “*Caution Regarding Forward-Looking Statements*” and “*Risk Factors*” are expressly incorporated by reference into this MD&A. The AIF is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

## BUSINESS UPDATE

The following are the key developments that occurred in the quarter ended June 30, 2024 and subsequent to the quarter:

- On March 17, 2024, the Company entered into a definitive amalgamation agreement (the “**Definitive Agreement**”) with Conavi Medical Inc. (“**Conavi**”) to combine the companies in an all-stock transaction (the “**Transaction**”). Under the terms of the Definitive Agreement, a newly incorporated and wholly-owned subsidiary of the Company and Conavi will amalgamate and the shareholders of Conavi will be issued Common Shares of the Company (“**Common Shares**”) based on an exchange ratio to be determined pursuant to the Definitive Agreement. The exchange ratio will be adjusted, if necessary, such that the Company’s shareholders prior to closing of the Transaction will hold at least 10% of the resulting shares following completion of the Transaction, but may be higher depending on the Company’s cash balance on the Transaction closing date. In connection with the Transaction, Titan expects to delist its common shares from the Toronto Stock Exchange and apply to have them listed instead on the TSX Venture Exchange (the “**TSXV**”). Titan is focused on the execution of the Transaction, which remains subject to a number of conditions precedent set forth in the Definitive Agreement, including the approval of the Company shareholders, the Conavi shareholders, and the approval of the TSXV for the listing of the Common Shares following closing of the Transaction. The Definitive Agreement was subsequently amended on May 28, 2024, July 5, 2024 and August 14, 2024.
- Titan has reached a settlement agreement in connection with a dispute with a contract manufacturer (the “**Contractor**”). Under the terms of the settlement, Titan has agreed to pay the Contractor an aggregate sum of \$2,000 with the final installment payment to be made on or before June 24, 2024. Upon receipt of the full \$2,000 the Contractor will deliver the outstanding material, inventory, and works-in-progress to Titan.

## OVERVIEW

Titan is a medical technology company headquartered in Toronto, Ontario that previously had operations in Chapel Hill, North Carolina through its subsidiary, Titan Medical USA Inc. (“**Titan USA**”). Titan has developed an expansive patent portfolio related to the enhancement of robotic assisted surgery. Certain of Titan’s robotic assisted surgery (“**RAS**”) technologies and related intellectual property (“**IP**”) have been licensed to Medtronic plc (“**Medtronic**”) and Intuitive Surgical, Inc. (“**Intuitive**”) while retaining world-wide rights to commercialize the technologies for use with the Enos System. Titan commenced a strategic review in November of 2022 (the “**Strategic Review**”) and since May 26, 2023, the Company has focused on evaluating new opportunities to license its intellectual property, while reviewing and evaluating further strategic alternatives for the business, including a corporate sale, merger or other business combination, a sale of all or a portion of the company’s assets, strategic investment or other significant transaction (the “**Strategic Transition**”). The Strategic Review and Strategic Transition led to the signing of the Definitive Agreement and the proposed merger with Conavi.

The Company was previously focused on the development of the Enos single access robotic-assisted surgical platform, which has not been authorized for marketing by the U.S. Food and Drug Administration or approved by any other regulatory authority in any other jurisdiction and is not commercially available.

The Company is the successor corporation formed pursuant to two separate amalgamations under the *Business Corporations Act* (Ontario) on July 28, 2008. The address of the Company’s corporate office and its principal place of business is 76 Berkeley Street, Toronto, Ontario, Canada M5A 2W7. On May 29, 2020, the Company established Titan USA, a Delaware corporation and a wholly owned subsidiary of the Company.

## SIGNIFICANT TRANSACTIONS

### *Intuitive Licence Agreement*

On May 26, 2023, the Company announced that it had entered into a license agreement with Intuitive (the “**Intuitive License**”). Under the terms of the Intuitive License, Titan granted Intuitive a non-exclusive license to certain IP of the Company for an upfront payment of \$7,500 received on May 26, 2023 with no further royalty payments due thereunder. Titan retains ownership of the licensed IP, along with the associated rights including the right to continue to develop and commercialize the technologies covered by the licensed IP and the right to license the IP to other third parties.

### *Agreements with Medtronic*

On June 3, 2020, the Company entered into a development and license agreement (the “**Development Agreement**”) with a U.S. affiliate of Medtronic in connection with the development of RAS technologies and a separate license agreement (the “**License Agreement**”, and together with the Development Agreement, the “**Medtronic Agreements**”) with Medtronic with respect to certain previously developed Company technologies.

Under the terms of the License Agreement, Titan granted Medtronic an exclusive license with regard to certain RAS technologies, including patents and know-how, for a one-time upfront royalty payment of \$10,000 received on June 10, 2020 with no further royalty payments due thereunder. Under the terms of the Development Agreement, Titan granted Medtronic an exclusive license with regard to the technologies developed under the Development Agreement in exchange for payments totaling \$30,600 as described below, with no further royalty payments due thereunder. While the IP licensed to Medtronic under the Medtronic Agreements may not be licensed to a third party, Titan has retained rights to continue to develop, commercialize and use the licensed IP and the licensed technologies for the Company’s own business in single access RAS, including the Enos System. Furthermore, in connection with the sale of all or substantially all of the assets of the Company or a “change of control” (as such term is defined in the Medtronic Agreements), the Company may assign and transfer all of its rights under the Medtronic Agreements, allowing an acquirer to use the licensed IP and technologies, as otherwise permitted under the Medtronic Agreements, for their own purposes.

All of the milestones under the Development Agreement have been completed and the associated payments were received from Medtronic, with a last payment of \$10,600 being received on January 26, 2022. The Company received a net payment of \$8,280, as \$2,300 was offset by Medtronic to pay for a loan that was retired in December 2021. The Company recognized revenue of \$10,000 in fiscal 2021 related to the achievement of this milestone.

On September 9, 2022, the Company entered into an agreement with Medtronic (the “**Development and Pre-Clinical Supply Agreement**”) that includes a limited development program, preclinical collaboration to evaluate the performance of various instruments and cameras in gynecological procedures, and the supply of certain instruments and cameras to Medtronic. The total commitment of work under the Development and Pre-Clinical Supply Agreement was approximately \$2,662. In connection with the Pre-Clinical Supply Agreement, in May 2022, the Company received a purchase order from Medtronic for the \$2,662 and received a deposit of \$1,206 in July 2022, which was recorded as deferred revenue at the time of receipt. In the second quarter of 2023, the Company recognized \$1,682 of revenue for the completion of the final deliverables under the Development and Pre-Clinical Supply Agreement, with the remaining \$980 being cancelled.

On June 5, 2023, the Company announced that it had entered into an asset purchase and non-exclusive license agreement with Medtronic (the “**Medtronic APLA**”). Under the terms of the Medtronic APLA, for an upfront payment of \$8,000, Titan sold to Medtronic the patents exclusively licensed by Titan to Medtronic under the Medtronic Agreements (“**Acquired Rights**”) and granted Medtronic a non-exclusive license to certain other Titan IP excluding the Acquired Rights (“**Licensed IP**”). Medtronic has granted Titan a limited non-exclusive license back to the Acquired Rights and Titan retains ownership of the Licensed IP, along with the associated rights including the right to continue to develop and commercialize the technologies covered by the Licensed IP and the right to further license the Licensed IP to other third parties.

## RESEARCH AND DEVELOPMENT

### *Enos System Development*

While the Company has halted all development activities towards the commercialization of RAS technologies, the Company has previously developed certain innovative surgical technologies for single access RAS requiring only a single access point/port, including the development of an expansive IP portfolio. The Company worked on the development of the Enos System, which comprises a surgeon-controlled patient cart with a 3D high-definition vision system and multi-articulating instruments to enable a surgeon to perform surgical procedures, and a surgeon workstation designed to provide the surgeon with an ergonomic interface to the patient cart and a 3D high-definition view of the surgical procedure.

The design of the Enos System patient cart provides for the delivery of two multi-articulating instruments and a flexible 3D high-definition endoscopic camera through a single access port through an insertion tube/cannula with a diameter of approximately 25 millimeters that includes an integrated 2D high-definition camera. The endoscopic camera and multi-articulating instruments are designed to be controlled by the surgeon via the surgeon workstation. The reusable multi-articulating instruments are designed to provide dexterous movements and to facilitate an assortment of end effectors.

Through the development of RAS technologies, the Company has evaluated its technologies for IP protection through a combination of trade secrets and patent application filings.

### *“Enos 2.0” Development*

*The Company has developed next generation RAS technology that leverages and builds on the technology of the Enos System and that generated under the previously completed Development Agreement (the “**Enos 2.0 Technology**”). The Enos 2.0 Technology includes an iterative design of a surgeon-controlled patient cart that supports three multi-articulating instruments and a 3D high-definition endoscope camera*

that are remotely positionable and surgeon-controlled using a remote center of motion at a single access point/port.

### *Regulatory Overview*

RAS systems are highly regulated, complex medical devices that require regulatory approval and/or authorization in each country where such product would be commercialized. While the Company is not presently seeking regulatory authorization for its technologies, based on prior communications with the FDA, the US regulatory pathway would likely involve marketing authorization through a classification request for novel devices in accordance with section 513(f)(2) of the U.S. Federal Food, Drug and Cosmetic Act (the “**FD&C Act**”), commonly known as a De Novo classification submission.

Since the Company has not submitted any applications for marketing authorization, it is not possible to predict the outcome of any future review by the FDA and the time required to complete activities necessary for regulatory marketing authorization.

Prior to postponing its activities, the Company was working towards an IDE submission with the FDA to seek approval to perform human surgeries as part of a proposed clinical study with the Enos System. An IDE allows the investigational device to be used in a clinical study in order to collect safety and effectiveness data and would be required prior to seeking marketing authorization.

### *Development Plan*

Since May 26, 2023, the Company has focused on evaluating new opportunities to license its intellectual property, while reviewing and evaluating further strategic alternatives for the business, including a corporate sale, merger or other business combination, a sale of all or a portion of the company’s assets, strategic investment or other significant transaction. The Strategic Review and Strategic Transition led to the signing of the Definitive Agreement and the proposed merger with Conavi.

## **INTELLECTUAL PROPERTY AND LICENSING**

The Company has developed an expansive patent portfolio related to the enhancement of RAS, including through a single access point, and is currently focused on evaluating new opportunities to further develop and license its IP.

Pursuant to the Medtronic Agreements and the Medtronic APLA, the Company has licensed certain IP of the Company and sold certain IP of the Company to Medtronic (see “*Significant Transactions – Agreements with Medtronic*”).

Pursuant to the Intuitive License Agreement, the Company non-exclusively licensed to Intuitive certain IP of the Company (see “*Significant Transactions – Intuitive License Agreement*”).

### *IP Exclusivity and Independence*

Under the Medtronic APLA, while Titan sold certain of its IP to Medtronic, Titan received a limited license back to the Acquired Rights consistent with the rights retained by Titan for the exclusively licensed IP under the Medtronic Agreements to commercialize the licensed technologies in single access RAS, including with the Enos System and enhancements thereof, should the Company choose to do so. Under the Medtronic APLA Titan may assign its IP rights thereunder in connection with the sale of all or substantially all of the assets of Titan or in connection with a “change of control” (as such term is defined therein). Titan retains ownership of the Licensed IP, along with the associated rights including the right to continue to develop and commercialize the technologies covered by the Licensed IP and the right to further license the Licensed IP to other third parties. Under the Intuitive License Agreement, Titan retains ownership of the licensed IP, along with the associated rights including the right to continue to develop and commercialize the technologies covered by the licensed IP and the right to license the IP to other third parties.

See “Significant Transactions - Agreements with Medtronic” and “Significant Transactions – Intuitive License Agreement”.

## RESULTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Revenue	-	17,182	-	17,182
Expenses				
Research and development	-	360	(103)	808
General and administrative	1,104	4,287	2,047	6,584
	1,104	4,647	1,944	7,392
Net (loss) income from operations	(1,104)	12,535	(1,944)	9,790
Finance income	(72)	(21)	(172)	(28)
Finance expenses	32	65	67	142
Foreign exchange loss	6	10	38	17
Gain on AP settlement	(8)	(692)	(8)	(692)
Gain on fair value of warrant	-	(83)	-	(334)
Total other income	(42)	(721)	(75)	(895)
Income tax expense	3	-	3	-
Net and comprehensive (loss) income	(1,065)	13,256	(1,872)	10,685
Diluted (loss) income per share	(0.01)	0.10	(0.02)	0.08

<b>Financial Position</b>	<b>June 30,</b>	<b>December 31,</b>
	<b>2024</b>	<b>2023</b>
Cash	3,898	7,543
Total assets	4,514	8,762
Total liabilities	1,785	3,977
Total equity	2,729	4,785

### Revenue

Revenue was nil for the three and six months ended June 30, 2024 compared to \$17.2 million for the three and six months ended June 30, 2023. In the prior period, the Company recognized \$15.5 million in revenue from the Medtronic APLA and the Intuitive License Agreement as the agreements allow both Medtronic and Intuitive to use the Company’s intellectual property as it exists when the licence is granted. The Company also recognized \$1.7 million of revenue for the completion of the final deliverables on the purchase order for Medtronic.

### Research and Development

Research and development (“**R&D**”) expenses were nil for the three months ended June 30, 2024 compared to \$0.4 million for the three months ended June 30, 2023. R&D expenses were recovery of \$0.1 million for the six months ended June 30, 2024 compared to \$0.8 million for the six months ended June 30, 2023.

In the three and six months ended June 30, 2023, the Company implemented cost-cutting measures that significantly reduced R&D expenses. In the six months ended June 30, 2024, R&D expense recovery of \$0.1 million is attributed to forfeitures of stock options and Restricted Share Units (“RSUs”) related to R&D personnel.

### General and Administrative

General and administrative (“**G&A**”) expenses were \$1.1 million and \$2.0 million for the three and six months ended June 30, 2024 compared to \$4.3 million and \$6.6 million for the comparative periods ended June 30, 2023. The decrease in G&A expenses in the current period is related to the cost-cutting measures implemented in Q2, 2023. In 2023, G&A expenses included severance charges of \$1.4M, transaction costs of \$1.5M, and increased stock-based compensation, offset by reduction in costs due to cost-cutting measures.

### Net (Loss) Income from Operations

Net loss from operations was \$1.1 million and \$1.9 million for the three and six months ended June 30, 2024 compared to net income of \$12.5 million and \$9.8 million for the three and six months ended June 30, 2023. Net income from operations in 2023 is primarily related to the Medtronic APLA and the Intuitive License Agreement as well as the Strategic Review. As part of the Strategic Review, the Company implemented cost-cutting measures that reduced both R&D and G&A expenses including a reduction in its labour force.

### Other (income) expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Finance income	(72)	(21)	(172)	(28)
Finance expenses	32	65	67	142
Foreign exchange loss	6	10	38	17
Gain on AP settlement	(8)	(692)	(8)	(692)
Gain on fair value of warrant	-	(83)	-	(334)
Total other income	(42)	(721)	(75)	(895)

### Finance income

Finance income was \$72 for the three months ended June 30, 2024 compared to \$21 for the three months ended June 30, 2023. Finance income was \$172 for the six months ended June 30, 2024 compared to \$28 for the six months ended June 30, 2023. The increase in finance income in 2024 compared to 2023 is related to higher yield earned on the Company’s larger average cash balances.

### Finance expenses

Finance expenses were \$32 for the three months ended June 30, 2024 compared to \$65 for the three months ended June 30, 2023. In the comparative quarter, the finance expenses included the non-cash interest inherent in lease obligations for the Company's Chapel Hill facility. In the comparative quarter, the finance expenses relate to the non-cash interest inherent in lease obligations for the Company's Chapel Hill facility and interest on supplier accounts.

Finance expenses were \$67 for the six months ended June 30, 2024 compared to \$142 for the six months ended June 30, 2023. In the current six-month period finance expenses included the non-cash interest inherent in lease obligations for the Company's Chapel Hill facility. In the comparative six-month period, the finance expenses relate to the non-cash interest inherent in lease obligations for the Company's Chapel Hill facility and interest on supplier accounts.

### Foreign exchange loss

Foreign exchange loss was \$6 for the three months ended June 30, 2024 compared to a foreign exchange gain of \$10 for the three months ended June 30, 2023. Foreign exchange loss was \$38 for the six months ended June 30, 2024 compared to a loss of \$17 for the six months ended June 30, 2022. Foreign exchange is related to the revaluation of the Canadian dollar non-monetary assets being revaluated into the US dollar reporting currency.

### Gain on AP settlement

During the quarter, the Company recognized a gain of \$8 from settlement of Accounts payable. In the comparative periods, the Company has reduced its outstanding financial obligations to vendors by \$4.1 million from the first quarter of 2023 and recognized a gain of \$692 from the amount settled that is less than the book value.

### Gain on Fair Value of Warrant Derivative

As there were no derivative warrants outstanding as of March 31, 2024, as such there were no fair value gain or loss for the three and six months ended June 30, 2024. For the three and six months ended June 30, 2023, the gain on the fair value of the warrant derivative was \$83 and \$334 respectively.

### Net and Comprehensive (Loss) Income

Net and comprehensive loss was \$1.1 million for the three months ended June 30, 2024 compared to net income of \$13.3 million for the three months ended June 30, 2023. Net and comprehensive loss was \$1.9 million for the six months ended June 30, 2024 compared to a net income of \$10.7 million for the six months ended June 30, 2023. The improvement in net income from operations in 2023 compared to 2024 is primarily related to the Medtronic APLA and the Intuitive License Agreement.

## FINANCIAL POSITION

### *Working Capital*

The Company defines working capital as current assets, less current liabilities. Working capital was \$3,254 at June 30, 2024 compared to \$5,540 at December 31, 2023. The Company commenced a Strategic Review in November 2022 to address the working capital deficiency (see “Overview”). During 2023, the Company received cash proceeds of \$15,500 from the Intuitive License and Medtronic APLA. The receipt of these proceeds improves the Company’s financial position and its ability to execute its plan into fiscal 2025.

## LIQUIDITY AND CAPITAL RESOURCES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Cash (used in) from operating activities	(1,663)	9,479	(3,353)	7,592
Cash used in financing activities	(146)	(84)	(292)	(163)
Cash used in investing activities	-	(41)	-	(97)
Net change in cash during the period	(1,809)	9,354	(3,645)	7,332
Cash and cash equivalents, beginning of period	5,707	1,267	7,543	3,289
<b>Cash and cash equivalents, end of period</b>	<b>3,898</b>	<b>10,621</b>	<b>3,898</b>	<b>10,621</b>

*The Company had cash of \$3.9 million as of June 30, 2024, compared to \$7.5 million as of December 31, 2023.*

### *Operating Activities*

Cash used in operating activities was \$1.7 million for the three months ended June 30, 2024 compared to cash from operating activities of \$9.5 million for the three months ended June 30, 2023. Cash used in operating activities was \$3.4 million for the six months ended June 30, 2024 compared to cash from operating activities of \$7.6 million for the six months ended June 30, 2023.

Cash from operating activities in the three and six months periods ending June 30, 2023 was primarily related to the Medtronic APLA and the Intuitive License Agreement as well as the Strategic Review.

### *Financing Activities*

Cash used in financing activities was \$146 for the three months ended June 30, 2024 compared to cash used in financing activities of \$84 for the three months ended June 30, 2023.

Cash used in financing activities was \$292 for the six months ended June 30, 2023 compared to cash used in financing activities of \$163 for the six months ended June 30, 2023.

In both the three and six month periods, cash used in financing was related to the repayment of lease obligations for the Company’s facility in Chapel Hill. In the comparative three and six-month period, the Company applied a rent credit to reduce cash lease costs.

### *Investing Activities*

Cash from investing activities was nil for the three and six months ended June 30, 2024 compared to \$41 and \$97 for the three and six months ended June 30, 2023. In the comparative period, cash used in investing activities related to the patent filing costs.

## SELECTED QUARTERLY INFORMATION

The following is selected financial data for each of the eight most recently completed quarters, derived from the Company's financial statements, and calculated in accordance with IFRS. Net and comprehensive (loss) / income figures include the non-cash effects of adjustments in the valuation of outstanding warrant liability.

	Revenue	Net and comprehensive (loss) income	Basic (loss) income per share
	\$	\$	\$
June 30, 2024	-	(1,065)	(0.01)
March 31, 2024	-	(807)	(0.01)
December 31, 2023	-	(3,243)	(0.03)
September 30, 2023	450	68	-
June 30, 2023	17,182	13,256	0.12
March 31, 2023	-	(2,571)	(0.02)
December 31, 2022	-	(12,068)	(0.11)
September 30, 2022	-	(10,370)	(0.09)

Significant changes in key financial data from April 1, 2022, through June 30, 2024, reflect the following:

- The Strategic Review process that commenced in November 2022 and the Strategic Transition commenced in May 2023 (see "Overview").
- The implementation of certain cost-cutting measures with a view of preserving capital to support the Strategic Review while limiting work to tasks related to the Strategic Review, the IDE filing with the FDA and fulfilling certain other contractual development and supply obligations. The measures included the furlough of 40 employees at the Chapel Hill, North Carolina facility.
- The Intuitive License and the corresponding upfront payment of \$7,500 in respect of certain IP of the Company.
- The Medtronic APLA and corresponding upfront payment of \$8,000 in respect of certain IP of the Company.
- The non-exclusive licensing agreement with Auris Heath, Inc., a Johnson & Johnson MedTech company, in respect of certain IP of the Company, entered in August 2023.

Historically, operating results have fluctuated on a quarterly basis and the Company expects that quarterly results will continue to fluctuate in the future even with the Strategic Transition. Operating results for interim periods should not be relied upon as an indication of the results to be expected or achieved in any future period or any fiscal year as a whole. Risk factors affecting revenue and results are discussed in the section entitled "Risk Factors" in the AIF.

## CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain a strong statement of financial position. In November 2022, the Company commenced the Strategic Review process to consider strategic alternatives as the Company's available working capital was nominal. In December, the Company announced cost-cutting measures with a view of preserving capital to support the Strategic Review while limiting work to tasks related to the Strategic Review, the IDE filing with the FDA and fulfilling certain other contractual development and supply obligations. As of May 26, 2023, the Company was focused on evaluating opportunities to develop and license its intellectual property, while reviewing and evaluating further strategic alternatives for the business, including a corporate sale, merger or other business combination, a sale of all or a portion of the company's assets, strategic investment or other significant transaction.

The Company defines its capital as cash and shareholders' equity, which as at June 30, 2024, totaled \$6,627 (December 31, 2023 - \$12,328). During the second quarter of 2023, the Company received cash proceeds of \$15,500 from the Intuitive License and the Medtronic APLA. The receipt of these proceeds improved the Company's financial position and its ability to execute its plan into fiscal 2025. The Company does not have any debt other than accounts payable and accrued liabilities and lease liabilities. In managing its capital, the Company estimates future cash requirements by preparing an annual budget for review and approval by its Board. The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities.

Historically, the Company has funded its operations through the issuance of additional Common Shares and common share purchase warrants that upon exercise are converted to Common Shares and through license revenue received under licensing agreements. While management regularly monitors the capital markets, general market conditions, and the availability of capital, there are no assurances that funds will be made available to the Company in the required amounts or when required.

On August 25, 2022, the Company's Form F-3 registration statement became effective (the "Base Shelf") that qualified for distribution up to \$90,000 of Common Shares, warrants, or units (the "Securities") in the U.S. In connection with the Company's de-registration from the United States Securities and Exchange Commission, the Base Shelf ceased to be effective on April 10, 2023.

The Company's Form F-3 registration statement that qualified for distribution up to \$125,000 of Securities in either Canada, the U.S. or both expired on July 30, 2022.

### *Nasdaq Compliance*

On December 30, 2021, the Company received a notification from Nasdaq's Listing Qualifications Department that it was not in compliance with the minimum bid price requirement set forth in Nasdaq Rule 5550(a)(2) since the closing bid price for the Company's Common Shares listed on Nasdaq was below US\$1.00 for 30 consecutive business days. Nasdaq Rule 5550(a)(2) requires the shares to maintain a minimum bid price of US\$1.00 per share, and Nasdaq Rule 5810(c)(3)(A) provides that failure to meet such a requirement exists when the bid price of the shares is below US\$1.00 for a period of 30 consecutive business days.

In accordance with Listing Rule 5810(c)(3)(A), Nasdaq will provide written notification that the Company has achieved compliance with the minimum bid price requirement (and will consider such deficiency matters closed) upon the bid price of the shares closing at or above US\$1.00 per share for a minimum of 10 consecutive business days. The Company had a period of 180 calendar days from the date of notification, being until June 28, 2022, to regain such compliance. Since it was not able to achieve compliance with the minimum bid price requirement by the June 28, 2022 deadline, the Company applied for, and on June 29, 2022 was granted, an additional 180 calendar day period, through December 26, 2022, to evidence compliance with the US\$1.00 minimum bid price requirement for continued listing on Nasdaq.

On December 27, 2022, the Nasdaq Listing Qualifications Staff notified the Company that, based upon the Company's non-compliance with the minimum bid price requirement set forth in Nasdaq Listing Rule

5550(a)(2) as of December 26, 2022, the Company's securities would be delisted unless the Company timely requested a hearing before the Nasdaq Hearings Panel (the "**Nasdaq Panel**"). The Company requested a hearing and on March 9, 2023, the Company announced the decision of the Nasdaq Panel to delist the Company's Common Shares effective March 10, 2023. On April 4, 2023, the Company filed Form 25 with the United States Security and Exchange Commission to deregister as a reporting issuer.

The Company is listed on the TSX and the notification does not affect the company's compliance status with such listing. The Company also trades on the OTC Markets. In connection with the Transaction, the Company intends to delist its Common Shares from the TSX and list the Common Shares on the TSX Venture Exchange upon completion of the Transaction. See "*Business Update*".

## CONTRACTUAL OBLIGATIONS

The Company's primary liquidity needs for the next twelve months are to pay operating expenses and to manage its working capital. The following contractual maturities of financial obligations exist as at June 30, 2024:

	Contractual cash flow	Within 1 year	1 – 3 years
	\$	\$	\$
Accounts payable and accrued liabilities	663	663	-
Income taxes payable	24	24	-
Lease liabilities	1,136	538	598
<b>TOTAL</b>	<b>1,823</b>	<b>1,225</b>	<b>598</b>

## OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this report, the Company had no off-balance sheet arrangements.

## PROPOSED TRANSACTION

The Strategic Transition has led to the Company entering into the Definitive Agreement with respect to the Transaction. See "*Business Update*". The Transaction remains subject to a number of conditions precedent set forth in the Definitive Agreement, including the approval of the Company shareholders, the Conavi shareholders, and the approval of the TSXV for the listing of the Common Shares following closing of the Transaction. It is also a condition precedent that Conavi will complete a financing for gross proceeds of at least C\$15,000. Following the Transaction, the resulting issuer is expected to carry on the business of Conavi.

## OUTSTANDING COMMON SHARE DATA

The following table summarizes the outstanding share capital as of August 15, 2024:

Type of Securities	Number of Common Shares issued or issuable upon conversion
Common Shares	114,039,850
Stock options	2,095,026
Restricted share units	3,649,739
Equity warrants	3,289,820

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the Company's significant accounting policies is included in Note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2023.

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Management has identified accounting estimates that it believes are most critical to understanding the Consolidated Financial Statements and those that require the application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The Company's actual results could differ from these estimates and such differences could be material.

Financial statement items subject to significant judgement include, (a) incremental borrowing rate used to measure lease liabilities, (b) the fair value estimate of the measurement of lease, warrant derivative liabilities and the note payable, (c) the assessment of the Company's ability to meet its obligations as they come due and (d) the assessment of impairments on property, plant and equipment and right of use assets. While management believes that the estimates and assumptions are reasonable, actual results may differ.

## RELATED PARTY TRANSACTIONS

During the quarters ended June 30, 2024 and June 30, 2023, transactions between the Company and directors, officers and other related parties were related to compensation matters in the normal course of operations and are measured at the fair value, which is the amount of consideration established and agreed to by the related parties.

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts payable and accrued liabilities and the warrant derivative liability. The fair value of these financial instruments approximates their carrying values, unless otherwise noted, due to the short-term maturities of these instruments, the discount rate applied or in the case of the warrant liability, due to the application of mark-to-market policy.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design of internal controls over financial reporting (“**ICFR**”) within the Company, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* requires the Chief Executive Officer and Chief Financial Officer to certify that they are responsible for establishing and maintaining ICFR for the Company and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and Chief Financial Officer are also responsible for disclosing any changes to the internal controls for the Company that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

Management, including the Interim Chief Executive Officer and Chief Financial Officer, does not expect that the internal controls over financial reporting of the Company will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met.

Further, the design of a control system must reflect that there are resource constraints, and the benefits of controls must be considered relative to their costs. Inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There have been no changes in the ICFR of the Company during the period of this MD&A that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

## RISK FACTORS

For a detailed description of risk factors associated with the Company, refer to the “Risk Factors” section of the AIF, which is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

An investment in the Company’s securities is speculative and involves a high degree of risk due to the nature of the Company’s business. It is recommended that investors consult with their own professional advisors before investing in the Company’s securities.