

TITAN MEDICAL

Q3, 2023

Condensed Interim Consolidated Financial Statements (Unaudited)

NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102 – Continuous Disclosure Obligations (“**NI 51-102**”), Section 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of Titan Medical Inc. (referred to hereinafter as “**Titan**”, the “**Company**”, “**we**”, “**us**” and “**our**”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada (CPA Canada) for a review of interim financial statements by an entity’s auditor.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(in thousands of US dollars)

| | | As at Sept 30, 2023 | As at December 31, 2022 |
|---|-------|---------------------------|-------------------------------|
| | Notes | \$ | \$ |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | | 8,895 | 3,289 |
| Prepaid expenses, deposits and receivables | | 596 | 1,747 |
| TOTAL CURRENT ASSETS | | 9,491 | 5,036 |
| NON-CURRENT ASSETS | | | |
| Patent rights, net | | 1,579 | 2,083 |
| TOTAL NON-CURRENT ASSETS | | 1,579 | 2,083 |
| TOTAL ASSETS | | 11,070 | 7,119 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | | 1,480 | 6,993 |
| Current portion of lease obligations | 4 | 450 | 386 |
| Deferred revenue | 3 | - | 1,206 |
| Warrant derivative liability | 5 | - | 375 |
| TOTAL CURRENT LIABILITIES | | 1,930 | 8,960 |
| NON-CURRENT LIABILITIES | | | |
| Lease obligations | 4 | 1,086 | 1,323 |
| TOTAL LIABILITIES | | 3,016 | 10,283 |
| SHAREHOLDERS' EQUITY (DEFICIT) | | | |
| Share capital | 6 | 265,966 | 264,511 |
| Contributed surplus – warrant reserve | 7 | 3,205 | 11,749 |
| Contributed surplus | | 25,116 | 17,005 |
| Deficit | | (286,233) | (296,429) |
| TOTAL SHAREHOLDERS' EQUITY (DEFICIT) | | 8,054 | (3,164) |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 11,070 | 7,119 |
| Commitments (Note 13) | | | |

See accompanying notes to these condensed interim consolidated financial statements.

Approved on behalf of the Board:

"signed"

"signed"

Paul Cataford
Interim President & CEO-Board Chair

Cathy Steiner
Chair, Audit Committee

Condensed Interim Consolidated Statements of Net Loss and Comprehensive Loss
(Unaudited)
(in thousands of US dollars, except share and per share amounts)

| | Note | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------|------------------------------------|-----------------|-----------------------------------|-----------------|
| | | 2023 | 2022 | 2023 | 2022 |
| | | \$ | \$ | \$ | \$ |
| Revenues | 3 | 450 | - | 17,132 | - |
| Expenses | | | | | |
| Research and development | | 89 | 7,612 | 897 | 26,721 |
| General and administrative | | 1,136 | 3,008 | 7,720 | 8,668 |
| Total expenses | | 1,225 | 10,620 | 8,617 | 35,389 |
| Net (loss) income from operations | | (775) | (10,620) | 8,515 | (35,389) |
| Other Expenses (Income) | | | | | |
| Finance income | | (172) | (34) | (200) | (95) |
| Finance expense | | 41 | 42 | 183 | 77 |
| Foreign exchange loss (gain) | | 8 | (34) | 25 | (6) |
| Loss on disposal of patents | | - | - | 57 | - |
| Gain on disposal of PPE | | (237) | - | (237) | - |
| Gain on AP settlement | | (442) | - | (1,134) | - |
| Gain on fair value of warrant | 5 | (41) | (224) | (375) | (4,891) |
| Total other income | | (843) | (250) | (1,681) | (4,915) |
| Net and comprehensive income (loss) | | 68 | (10,370) | 10,196 | (30,474) |
| Fully diluted income (loss) per share | 10 | -- | (0.09) | 0.07 | (0.27) |

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(in thousands of US dollars)

| | Note | Nine Months Ended September 30 | |
|---|------|-----------------------------------|----------|
| | | 2023 | 2022 |
| | | \$ | \$ |
| OPERATING ACTIVITIES | | | |
| Net and comprehensive income (loss) | | 10,196 | (30,474) |
| Items not involving current cash flows: | | | |
| Depreciation and amortization | 8 | 99 | 563 |
| Interest expense on lease liabilities | | 132 | 78 |
| Share-based compensation expense | 9(c) | 1,022 | 2,134 |
| Loss on disposal of patents | | 57 | - |
| Gain on disposal of PPE | | (237) | - |
| Gain on AP settlement | | (1,134) | - |
| Gain on change in fair value of warrants | 5 | (375) | (4,891) |
| Changes in non-cash working capital balances | | | |
| Receivables | | (456) | 8,280 |
| Prepaid expenses and deposits | | 1,607 | 709 |
| Accounts payable and accrued liabilities | | (4,379) | 2,719 |
| Deferred revenue | | (1,206) | 1,206 |
| Cash from (used) in operating activities | | 5,326 | (19,676) |
| FINANCING ACTIVITIES | | | |
| Exercise of derivative warrants | | - | 2 |
| Repayment of lease obligations | | (305) | (308) |
| Cash used in financing activities | | (305) | (306) |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment (PPE) | | - | (474) |
| Proceeds from disposition of patents | | 500 | - |
| Proceeds from disposition of PPE | | 237 | - |
| Purchase of patents | | (152) | (214) |
| Cash from (used) in investing activities | | 585 | (688) |
| Increase (decrease) in cash during the period | | 5,606 | (20,670) |
| Cash and cash equivalents, beginning of the period | | 3,289 | 32,306 |
| Cash and cash equivalents, end of the period | | 8,895 | 11,636 |

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Shareholders' Equity
(Unaudited)
(in thousands of US dollars)

| | Notes | Share Capital | | Contributed Surplus – Warrant Reserve | Contributed Surplus | Deficit | Total |
|------------------------------------|-------|----------------|----------------|---------------------------------------|---------------------|------------------|--------------|
| | | 000s | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2021 | | 111,203 | 263,364 | 11,749 | 14,067 | (253,887) | 35,293 |
| Stock-based compensation expense | 9(c) | - | - | - | 2,134 | - | 2,134 |
| RSU exercised | | 688 | 1,094 | - | (1,094) | - | - |
| Derivative warrants exercised | | - | 2 | - | - | - | 2 |
| Net and comprehensive loss | | - | - | - | - | (30,474) | (30,474) |
| Balance, September 30, 2022 | | 111,891 | 264,460 | 11,749 | 15,107 | (284,361) | 6,955 |
| Balance, December 31, 2022 | | 111,955 | 264,511 | 11,749 | 17,005 | (296,429) | (3,164) |
| Stock-based compensation expense | 9(c) | - | - | - | 1,022 | - | 1,022 |
| RSU exercised | 9(b) | 1,675 | 1,455 | - | (1,455) | - | - |
| Expiry of Equity Warrants | 7 | - | - | (8,544) | 8,544 | - | - |
| Net and comprehensive income | | - | - | - | - | 10,196 | 10,196 |
| Balance, September 30, 2023 | | 113,630 | 265,966 | 3,205 | 25,116 | (286,233) | 8,054 |

See accompanying notes to these condensed interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

1. NATURE OF BUSINESS

Titan Medical Inc. (“Titan” or the “Company”) is a medical technology company 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 (“RAS”). As of May 26, 2023, the Company is 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. Certain of Titan’s RAS technologies and related intellectual property 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.

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 Medical USA Inc. (“Titan USA” or the “Subsidiary”), a Delaware corporation and a wholly owned subsidiary of the Company.

Going Concern

Since inception, the Company has devoted its resources to funding the development of the Enos System, which has resulted in an accumulated deficit of \$286.2 million as of September 30, 2023. The Company achieved a net income of \$10.2 million during the nine months ended September 30, 2023 and as of that date, the Company’s total assets exceeded its current liabilities by \$9.1 million and has a net shareholders’ equity of \$8.1 million.

On November 30, 2022, the Company announced the commencement of a strategic review process to consider a full range of strategic alternatives including 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”). On May 29, 2023, the Company provided a corporate update on the Strategic Review, announcing that the Board of Directors of the Company approved a strategic transition (“Strategic Transition”) in the Company’s business from the development and commercialization of RAS technologies to evaluating new opportunities to further develop and license its intellectual property (“IP”). With the Strategic Transition, the Company continues to retain the rights necessary to develop and commercialize RAS technologies, should it choose to do so, including the Enos System and, as announced on January 9, 2023, a three-instrument single-access RAS system that builds on the Enos System technologies. The Strategic Transition includes additional executive level changes that will continue to reduce the cash burn of the Company.

The Company does not earn any revenues from the Enos System and is therefore considered to be in the development stage. As required, the Company will continue to finance its operations through the sale of equity, licensing or development agreements, pursue non-dilutive funding sources available to the Company in the future and assess strategic alternatives, which it continues to review and evaluate, 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. On May 26, 2023, the Company announced that it entered into a license agreement with Intuitive for an upfront payment of \$7.5 million in respect of certain intellectual property of the Company. On June 5, 2023, the Company announced that it had entered into an asset purchase and license agreement with Medtronic for an upfront payment of \$8.0 million in respect of certain IP of the Company.

The accompanying consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The going concern basis contemplates the realization of assets and the settlement of liabilities in the normal course of business as they come due for the foreseeable future. Management has forecasted that the Company’s current level of cash as a result of \$15.5 million in proceeds from the license of intellectual property is expected to be able to fund operations into Q4 2025. These circumstances improved the ability of the Company to continue as a going concern and, hence, the appropriateness of the use of accounting principles applicable to a going concern will be reevaluated in the next few quarters.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. BASIS OF PRESENTATION

Statement of compliance

These Condensed Interim Consolidated Financial Statements were prepared by management in accordance with IFRS as issued by the IASB and in compliance with International Accounting Standard 34 *Interim Financial Reporting*. The notes presented in these Condensed Interim Consolidated Financial Statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in the Company's annual audited Consolidated Financial Statements. Accordingly, these Condensed Interim Consolidated Financial Statements should be read in conjunction with our most recent annual audited Consolidated Financial Statements, for the year ended December 31, 2022. We have consistently applied the same accounting policies for all periods presented in these Condensed Interim Consolidated Financial Statements as those used in our audited Consolidated Financial Statements for the year ended December 31, 2022.

These Condensed Interim Consolidated Financial Statements were authorized for issue by the Board of Directors on November 1, 2023.

Basis of measurement

These Condensed Interim Consolidated Financial Statements have been prepared under the historical cost convention, except for the revaluation of certain financial liabilities to fair value. Items included in the financial statements of each consolidated entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These interim Consolidated Financial Statements are presented in US dollars, which is the Company's functional currency.

Basis of consolidation

These Condensed Interim Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in these consolidated financial statements.

Estimates, assumptions, and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in adjustments to the carrying amount of an asset or liability or the reported amount of revenue and expense in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key areas of judgment and estimation are as follows:

Revenue Recognition

Patent licenses are considered a promise to provide the right to use specific intellectual property to the customer. Revenue from contracts containing no sales or usage-based royalties is recognized when the patent right is effective. Payment is generally either due immediately or within 30 days. Patent license revenue earned is considered a promise to provide the right to use patented technologies, is recognized when the patent right is effective, and is generally one-time in nature, which may result in significant fluctuations in revenue, operating and net income or loss on a year over year basis.

Leases

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use ("ROU") asset. The IBR, therefore, requires estimation when no observable rates are available. The Company

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

estimates the IBR using observable inputs such as market interest rates and is required to make certain entity-specific estimates such as the stand-alone credit rating.

Stock-based payments and warrants

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation and warrant reserves, which require the use of several input variables. Measurement date estimates include share price, expected volatility (based on weighted average historical volatility adjusted for changes expected due to publicly available information of a comparable peer group), weighted average expected life of the instruments, expected dividends and the risk-free interest rate (based on government bonds). The inputs to the model are subject to estimate and changes in these inputs can materially impact the estimated fair value of stock-based payments and warrants.

Asset impairments for non-financial assets and impairment reversals

The Company's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding estimates of the present value of future cash flows including growth opportunities, economic risk, and the discount rate.

3. REVENUES

On September 9, 2022, the Company entered into an agreement with Medtronic (the "Medtronic Pre-Clinical Agreement"), independent of the development and license agreements with Medtronic from June 2020 (the "June 2020 Agreements"), that included a limited development program, the supply of certain instruments and cameras and the potential for a preclinical collaboration to evaluate the performance of various instruments and cameras in gynecological procedures. The total commitment of work under the Medtronic Pre-Clinical Agreement is approximately \$2.6 million. In May 2022, the Company had received a purchase order from Medtronic for the \$2.6 million. In Q2, 2023, the Company recognized \$1.7 million of revenue for the completion of the final deliverables under the Medtronic Pre-Clinical Agreement, with the remaining \$0.9 million being cancelled.

On May 26, 2023, the Company announced that it had entered into a non-exclusive license agreement with Intuitive Surgical, Inc. (the "Intuitive License Agreement") for an upfront payment of \$7.5 million in respect of certain IP of the Company.

On June 5, 2023, the Company announced that it had entered into an asset purchase and a non-exclusive license agreement with Medtronic (the "Medtronic Asset Purchase and License Agreement" or "Medtronic APLA") for an upfront payment of \$8.0 million in respect of certain IP of the Company. The Company has allocated \$0.5M of the total consideration received under the Medtronic APLA to the patents sold to Medtronic under the Medtronic APLA (the "Medtronic Acquired Patents") and recognized a loss on disposal. The Medtronic Acquired Patents were previously exclusively licensed by the Company to Medtronic under the June 2020 Agreements. The remaining \$7.5 million received under the Medtronic APLA was allocated to the non-exclusive licensed IP.

In Q2, 2023, the Company recognized \$15.0 million in revenue as the Intuitive License Agreement and the Medtronic APLA allow both Intuitive and Medtronic respectively to use the Company's IP as it existed as of the date of the respective license grants.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

4. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company leases its facility in Chapel Hill, North Carolina. This lease has remaining lease terms of approximately 3.5 years as of March 31, 2023. The Company does not have leases with residual value guarantees, or leases not yet commenced to which the Company is committed. Lease liabilities have been measured by discounting future lease payments using the Company's incremental borrowing rate of 6.0% as rates implicit in the leases were not readily determinable. During Q2 2022, the Company amended its lease to acquire additional space and extended the lease term by 12 months to June 30, 2026. These amendments were discounted using an incremental borrowing rate (IBR) of 12.0% (2021-6.0%) to reflect the current economic environment.

As a result of the limited ongoing development work following the Strategic Review announced in December 2022 and the Strategic Transition in the Company's business from the development and commercialization of RAS technologies to evaluating new opportunities to further develop and license its IP announced in May, 2023, the Company determined there to be an indicator of impairment for the carrying value of its ROU assets and Property, Plant and Equipment and recognized an impairment charge of \$2,316 representing the entirety of its carrying value as of December 31, 2022.

The following table summarizes the Company's right-of-use liabilities outstanding at September 30:

| | 2023 |
|------------------------------|--------------|
| | \$ |
| Balance, January 1 | 1,709 |
| Interest expense | 132 |
| Repayments | (305) |
| Balance, September 30 | 1,536 |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

5. WARRANT DERIVATIVE LIABILITY

Warrants with an exercise price denominated in a currency that differs from an entity's functional currency are treated as a derivative, initially measured at fair value, with subsequent changes in fair value at each reporting period end recognized through consolidated statement of net and comprehensive loss. As these warrants are exercised, the fair value at the date of exercise and the associated non-cash liability will be included in our share capital along with the proceeds from the exercise. If these warrants expire, the non-cash warrant liability is reversed through the consolidated statement of net and comprehensive loss. There is no cash flow impact as a result of the accounting treatment for changes in the fair value of the warrant derivative or when warrants expire unexercised. The warrant derivative is a recurring Level 2 fair value measurement as these warrants have not been listed on an exchange and therefore do not trade on an active market. We use the Black-Scholes valuation model to estimate fair value.

| | Number of Warrants Outstanding | Fair Value of Warrant Derivative |
|---|--------------------------------------|-------------------------------------|
| As at December 31, 2022 | 16,412,504 | 375 |
| Expired | (7,956,622) | |
| Items that were classified to net loss: | | |
| Change in fair value | -- | (375) |
| As at September 30, 2023 | 8,455,882 | -- |

As at September 30, 2023, the following derivative warrants were outstanding:

| Issue Date | Expiry Date | Exercise Price | Currency | Number Issued | Number Outstanding |
|--------------------------------------|-------------|----------------|----------|------------------|--------------------|
| | | \$ | | | |
| 21-Mar-19 | 21-Mar-24 | 3.95 | USD | 8,455,882 | 8,455,882 |
| Balance at September 30, 2023 | | | | 8,455,882 | 8,455,882 |

6. SHARE CAPITAL

Authorized: Unlimited number of no par value common shares. 113,629,225 common shares issued and outstanding as of September 30, 2023 (111,954,284 as of December 31, 2022)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

7. CONTRIBUTED SURPLUS-WARRANT RESERVE

The Company issued 9,691,503 warrants pursuant to the equity offerings closed in January and February of 2021. Each warrant entitled the holder to purchase one common share at a fixed price, these warrants were classified as equity under IAS 32. These equity warrants expire between January 26, 2023 and November 6, 2025 and are not revalued at each reporting period.

| | Equity Warrants | Average exercise price | Warrant Reserve |
|---|--------------------|------------------------------|--------------------|
| | | \$ | \$ |
| Balance at January 1, 2023 | 9,912,633 | 2.47 | 11,749 |
| Expired: | | | |
| January 2021 Equity Offering-broker warrants | (515,834) | 1.94 | (1,378) |
| February 2021 Equity Offering | (4,792,625) | 3.00 | (5,928) |
| February 2021 Equity Offering-broker warrants | (670,967) | 3.00 | (1,238) |
| Balance at September 30, 2023 | 3,933,207 | 1.81 | 3,205 |

As at September 30, 2023, the following equity warrants were outstanding:

| Issue Date | Expiry Date | Exercise Price | Currency | Number Issued | Number Outstanding |
|--------------------------------------|-------------|-------------------|----------|------------------|-----------------------|
| | | \$ | | | |
| 27-Mar-20 | 27-Mar-25 | 0.21 | USD | 154,350 | 93,100 |
| 06-May-20 | 06-Nov-25 | 0.45 | USD | 125,455 | 73,343 |
| 10-Jun-20 | 10-Jun-24 | 1.25 | USD | 1,260,000 | 643,387 |
| 26-Jan-21 | 26-Jan-26 | 2.00 | USD | 3,709,677 | 3,123,377 |
| Balance at September 30, 2023 | | | | 5,249,482 | 3,933,207 |

8. DEPRECIATION AND AMORTIZATION

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|---------------|-------------------|---------------|
| | Sept 30, 2023 | Sept 30, 2022 | Sept 30, 2023 | Sept 30, 2022 |
| | \$ | \$ | \$ | \$ |
| Depreciation of ROU assets | - | 87 | - | 259 |
| Depreciation of PPE | - | 87 | - | 202 |
| R&D - Depreciation | - | 174 | - | 461 |
| G&A - Amortization of patent rights | 33 | 40 | 99 | 102 |
| Depreciation and Amortization | 33 | 214 | 99 | 563 |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

9. SHARE-BASED COMPENSATION

The Company's share-based compensation plans includes stock options and Restricted Share Units ("RSU"). The Company has reserved up to 15% of the issued and outstanding Common Shares for the granting of stock options and RSUs to eligible Employees, Officers, Directors and external consultants.

| | | |
|---|-------------|------------------|
| Common shares outstanding, September 30, 2023 | 113,629,225 | |
| Maximum shares available for issuance: 15% | | 17,044,384 |
| Stock options outstanding, September 30, 2023 | | (4,581,627) |
| RSU outstanding, September 30, 2023 | | (4,896,004) |
| Shares available for future grants | | 7,566,753 |

(a) Stock Options

The Company granted stock options to acquire common stock through our stock option plan of which the following are outstanding as September 30:

| | 2023 | | 2022 | |
|-----------------------|---------------|---------------------------------|---------------|---------------------------------|
| | Stock Options | Weighted Average Exercise Price | Stock Options | Weighted Average Exercise Price |
| | | \$ | | \$ |
| Balance, January 1 | 8,530,751 | 0.87 | 5,257,089 | 1.73 |
| Granted | - | - | 4,755,758 | 0.57 |
| Cancelled/Forfeited | (3,944,401) | 0.83 | (2,242,337) | 1.82 |
| Expired | (4,723) | 0.75 | (343,845) | 1.59 |
| Balance, September 30 | 4,581,627 | 0.91 | 7,426,665 | 0.94 |

(b) Restricted Share Units

The Company granted RSUs to Employees, Officers and Directors through our incentive share award plan. Grants of RSUs to Directors vest either immediately or on the date of the next Annual General Meeting. Grants of RSUs to Employees and Officers vest over a four-year period. The following RSUs are outstanding at September 30:

| | 2023 | 2022 |
|------------------------------|------------------|------------------|
| Balance at Jan 1 | 8,038,717 | 1,581,607 |
| Granted | 8,074 | 4,758,389 |
| Exercised | (1,674,941) | (702,000) |
| Cancelled/Expired | (1,475,846) | (138,333) |
| Balance, September 30 | 4,896,004 | 5,499,663 |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

(c) Stock-Based Compensation

The following table shows the stock-based compensation expense.

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | Sept 30, 2023 | Sept 30, 2022 | Sept 30, 2023 | Sept 30, 2022 |
| | \$ | \$ | \$ | \$ |
| Stock options | (40) | 278 | 507 | 233 |
| RSUs | 248 | 637 | 901 | 1,225 |
| G&A - Stock options & RSUs | 208 | 915 | 1,408 | 1,458 |
| Stock options | (16) | 243 | (518) | 588 |
| RSUs | 32 | 88 | 132 | 88 |
| R&D - Stock options & RSUs | 16 | 331 | (386) | 676 |
| Share-based compensation expense | 224 | 1,246 | 1,022 | 2,134 |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

10. INCOME (LOSS) PER SHARE

Basic income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Fully diluted income (loss) per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive securities to common shares.

The Company has stock options and awards as potentially dilutive securities. Fully diluted net income (loss) per share excludes all potentially dilutive shares if their effect is anti-dilutive. As a result of net losses incurred, all potentially dilutive securities have been excluded from the calculation of fully diluted net income (loss) per share because including them would be anti-dilutive.

| | Three Months ended Sept 30 | | Nine Months ended Sept 30, | |
|--|-------------------------------|-----------------|-------------------------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Numerator: | | | | |
| Net income (loss) | \$68 | (\$10,370) | \$10,196 | (\$30,474) |
| Denominator: | | | | |
| Weighted average number of common shares outstanding for basic EPS | 113,213,059 | 111,664,823 | 112,816,553 | 111,397,231 |
| Adjustment for diluted securities ¹ | 15,894,851 | - | 15,894,851 | - |
| Weighted average number of common shares outstanding for diluted EPS | 129,107,910 | 111,664,823 | 128,711,404 | 111,397,231 |
| Basic income (loss) per share | \$Nil | (\$0.09) | \$0.09 | (\$0.27) |
| Fully diluted income (loss) per share | \$Nil | (\$0.09) | \$0.08 | (\$0.27) |

¹The following securities were exercisable and not included in the calculation of fully diluted loss per share:

| | | | | |
|---------------------|------------|------------|------------|------------|
| Stock options | 1,768,872 | 882,180 | 1,768,872 | 882,180 |
| RSUs | 1,736,890 | 891,030 | 1,736,890 | 891,030 |
| Warrants Derivative | 8,455,882 | 17,945,660 | 8,455,882 | 17,945,660 |
| Warrants Equity | 3,933,207 | 9,912,633 | 3,933,207 | 9,912,633 |
| | 15,894,851 | 29,631,503 | 15,894,851 | 29,631,503 |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

11. FINANCIAL RISK MANAGEMENT

Credit Risk

Credit risk is the risk of financial loss to the Company if a licensee or counter party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash.

The Company's cash consists primarily of deposit investments that are held primarily with Canadian chartered banks or insurance companies.

The Company's only customer is a large multinational company which does not have a history of non-payment.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company manages this risk by managing its capital structure through continuous monitoring of its actual and projected cash flows. As at June 30, 2023, the Company had cash of \$10.6 million. The Company commenced the Strategic Review process in November 2022 to evaluate alternatives to manage its liquidity risk. On May 26, 2023, the Company announced that it had entered into a license agreement with Intuitive for an upfront payment of \$7.5 million in respect of certain intellectual property of the Company. On June 5, 2023, the Company announced that it had entered into an asset purchase and license agreement with Medtronic for an upfront payment of \$8.0 million in respect of certain IP of the Company.

Interest Rate Risk

The financial instrument that exposes the Company to interest rate risk is its cash. The Company's objectives of managing its cash are to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts that are considered in excess of day-to-day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash into short-term investments, the Company only places investments with Canadian chartered banks or insurance companies and ensures that access to the amounts placed can be obtained on short notice. A one percent increase/decrease in interest rates would not have resulted in a material increase/decrease in interest income/expense during the three and six months ended June 30, 2023.

Currency Risk

The Company's operating results are subject to changes in the exchange rate of the foreign currencies (primarily Canadian dollar) relative to the US dollar. Any decrease in the value of the Canadian dollar relative to the US dollar has a favourable impact on Canadian dollar denominated operating expenses. A nominal amount of the Company's cash and short-term investments are denominated in Canadian dollars and are subject to changes in the exchange rate of the Canadian dollar relative to the US dollar.

COVID-19

The COVID-19 pandemic and its variants continued to disrupt global health and impact economic conditions. The Company maintained its business continuity plans to ensure appropriate measures, procedures and protocols were in place to safeguard service to our customers while prioritizing employee, customer and vendor safety.

While governments have eased some restrictions, COVID continues to be impacted by a broader government directive which resulted in the need to modify work practices to meet appropriate health and safety standards, or by other COVID-19 related impacts on the availability of labour or to the supply chain. The extent to which COVID-19 performance will depend on further developments, including the resurgence and spread of any new variants, its impact on the Company's customers, suppliers and employees and actions taken by governments.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

The Company continues to monitor ongoing developments and attempts to mitigate the business and financial risks related to the events described above, including but not limited to, decline in customer demand, increase in operating costs, interruption of project work, credit risk associated with customer non-payment, access to financing and changes in the timing of cash flows.

Russia – Ukraine Conflict

The Russian invasion of Ukraine and the responses by governments around the world raises the prospects of increased cybersecurity attacks, strains on global supply chains, increases in energy prices, chip shortages since Russia and Ukraine are critical suppliers of neon gas and palladium used in chip production and challenges in natural resource extraction, refinement and transportation, among other possible impacts. The conflict may have a direct or indirect material adverse impact on the Company's business, financial condition, results of operations, or cash flows. During the first nine months of 2023, the conflict had no impact on the Company's business, financial condition, results of operations, or cash flows.

Nasdaq Listing

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) (the "Rule") 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Quarter Ended September 30, 2023

(in thousands of US dollars, except share and per share amounts, unless otherwise stated)

12. 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.

The Company defines its capital as cash and shareholders' equity, which as at September 30, 2023 totaled \$16.9 million [December 31, 2022 - \$0.1 million]. During the second quarter, the Company received cash proceeds of \$15.5 million from the agreement with Intuitive and the agreement with Medtronic. The receipt of these proceeds improves 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 qualifies for distribution of up to \$90.0 million of common shares, warrants, or units (the "Securities") in U.S. In connection with the Company's de-registration from the SEC, the Base Shelf ceased to be effective on April 10, 2023.

The Company's Form F-3 registration statement that qualified for the distribution of up to \$125.0 million of common shares, warrants or units in either Canada, the U.S. or both expired on July 30, 2022.

13. COMMITMENTS

As of September 30, 2023, the Company is committed to payments totaling \$Nil (December 31, 2022 - \$6.4 million) for activities related to the development of the Enos system.