# Management's Discussion and Analysis

July 14, 2020 / This Management's Discussion and Analysis of the Financial Position and Results of Operations ("MD&A") is the responsibility of management and has been reviewed and approved by the Board of Directors. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators.

Throughout this document, 2576560 Ontario Inc. is referred to as "NeuPath", "we", "our" or "the Company". This MD&A provides information management believes is relevant to an assessment and understanding of the consolidated results of operations, cash flows and financial condition of the Company. The following information should be read in conjunction with the Condensed Consolidated Interim Financial Statements and the notes thereto for the three months ended March 31, 2020. NeuPath's accounting policies are in accordance with International Financial Reporting Standards ("IFRS").

All amounts in this MD&A are expressed in thousands of Canadian dollars except per share figures, unless otherwise noted.

The Company uses non-IFRS financial measures in the MD&A. For a detailed reconciliation of the non-IFRS measures used in this MD&A, please see the discussion under "Non-IFRS Measures".

## Materiality of Disclosures

This MD&A includes information we believe is material to investors. We consider something to be material if it results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares, or if it is likely that a reasonable investor would consider the information important in making an investment decision.

## Forward-looking Statements

Certain statements in this MD&A are forward looking statements which may include, but are not limited to, statements with respect to the future financial or operating performance of NeuPath and its projects, the market conditions, business strategy, corporate plans, objectives and goals, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of NeuPath 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 this MD&A. Although NeuPath 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, NeuPath disclaim 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. Accordingly, readers should not place undue reliance on forward-looking statements.

# Overview

NeuPath is Canada's largest provider of chronic pain management services that operates under two leading brands in Ontario: CPM - Centres for Pain Management ("CPM") and InMedic Creative Medicine ("InMedic"). NeuPath has 12 locations across Ontario with more than 100 staff members that provide care to over 11,000 patients annually. NeuPath offers a comprehensive chronic pain assessment and multi-modal treatment plan based on recommendations by a group of trained physicians to help patients manage their chronic pain and optimize their quality of life. In addition to chronic pain management clinics, NeuPath provides workplace health services and independent medical assessments to disability insurers through its subsidiary, CompreMed Canada Inc. ("CompreMed") (acquired March 2019). The single, largest cost of chronic pain is lost productivity due to job loss and sick days.

**Background**

NeuPath's mission is to provide patients with the care and tools they need to live a complete and fulfilled life; to reclaim the daily life activities that have been taken by injury or illness. NeuPath operates a number of businesses providing medical services to a variety of patients and customers.

*NeuPath's Multimodal Approach to Chronic Pain Management*

NeuPath is Canada's largest service provider in the highly fragmented chronic pain management market and operates 12 chronic pain management clinics across Ontario under two leading brands: (i) CPM and (ii) InMedic.

Chronic pain affects approximately 1 in 5 Canadians and is a complex, multidimensional condition impacted by biological, behavioural, and social factors. As a result, NeuPath's more than 100 health care providers consider each of these factors when assessing and treating each patient. Traditional medical treatments are supplemented with NeuPath's Chronic Pain Self-Management Program, medical cannabis if deemed appropriate by physicians, and mindfulness meditation. This multimodal approach goes beyond treating the pain sensation and targets some of the underlying and contributing behavioral and social factors. In addition, the multimodal approach provides patients with the education and tools needed to help self-manage their chronic condition.

NeuPath generates revenue by providing both insured and uninsured services to patients. Insured services include treatments or procedures covered by provincial health plans and third-party health insurance plans. In most cases, the insurer is billed directly by NeuPath. Uninsured services include treatments and procedures that are not covered by provincial health plans or third-party health insurance plans and are billed directly to patients.

Patients experiencing pain for at least three months are referred to NeuPath clinics by family physicians or nurse practitioners. Prior to their first visit, patients complete an extensive questionnaire. The questionnaire is designed to gain a better understanding of the patient's pain, the pain's impact on their life, and the patient's medical history and lifestyle. Patients then complete an assessment with one of NeuPath's chronic pain practitioners. The goal of the assessment is to gain a better understanding of the patient's condition in order to create a treatment plan. Every patient is different from a biological, behavioral, and social perspective, so treatment plans reflect these differences and vary from patient to patient. Common elements of treatment plans include:

- Injection-based Therapies: NeuPath's physicians inject analgesics around a specific nerve or bundle of nerves with the goal of reducing pain intensity. These nerve blocks are covered to varying degrees by provincial health plans. In addition, NeuPath also offers therapeutic Botox injections for the treatment and prevention of chronic migraines. Botox injections are covered by some third-party health insurance plans.

- Infusion Therapy: At select clinic locations, NeuPath offers intravenous lidocaine infusion therapy for the treatment of neuropathic pain, Complex Regional Pain Syndrome, and chronic diabetic neuropathy. In general, provincial health insurance plans offer coverage for intravenous lidocaine infusion therapy.

- Chronic Pain Self-Management Program: Based on research conducted at Stanford University, the Chronic Pain Self-Management Program is a group-based, facilitated, and highly interactive six week/twelve-hour program. The program is a psychoeducational, cognitive behavioral program which helps patients better understand chronic pain and teaches non-medicated coping strategies and goal setting. Topics include: techniques and coping strategies to deal with frustration, fatigue, pain, and isolation; appropriate exercise for improving and maintaining strength, flexibility, and endurance; appropriate use of medications; communicating effectively with family, friends, and health professionals; nutrition; and evaluating new treatments. Research has shown that similar programs have shown significant short-term improvements in pain, dependency, vitality, aspects of role functioning, life satisfaction, and self-efficacy.

- Optimization of Pharmacotherapy: The Canadian Pain Society guidelines for the treatment of neuropathic pain recommends gabapentinoids, tricyclic antidepressants, and serotonin-norepinephrine reuptake inhibitors as first-line agents for treating neuropathic pain. Tramadol and other opioids are recommended as second-line agents for treating neuropathic pain. Oftentimes, the therapies patients receive at NeuPath will allow NeuPath's physicians to optimize, reduce, eliminate, or replace patients' pain medications. For example, research shows that intravenous lidocaine infusions are an effective adjuvant therapeutic approach for chronic pain management particularly for opioid dependent patients.

- Medical Cannabis: In conjunction with other therapeutic approaches, NeuPath's physicians also prescribe medical cannabis where appropriate. The Canadian Pain Society recently updated their guidelines for the treatment of neuropathic pain and cannabinoids are recommended as third-line agents.

NeuPath measures capacity utilization across its clinic network using a calculation based on an amalgam of the percentage of available physician shifts that are staffed and the percentage of available appointment slots that are filled. Recognizing that reaching 100% capacity utilization is not a realistic goal, NeuPath uses 80% as theoretical full capacity. Based on theoretical full capacity, NeuPath's current capacity utilization is 52% across its clinic network in the first quarter, compared to 56% for the year ended December 31, 2019. Capacity in the first quarter was negatively impacted by the novel coronavirus ("COVID-19"). NeuPath believes there is a significant opportunity to grow revenues by increasing capacity utilization, which NeuPath is working to accomplish by recruiting more physicians, increasing patient throughput, and adding complementary services to its clinics.

In addition to opportunities to grow revenue organically, NeuPath believes there is an opportunity to grow via acquisition. The physician services clinic segment in Canada is fragmented and regionalized due to provincial administration of health insurance plans. In addition, there are a limited number of groups acquiring clinics which, combined with the fragmented nature of the market, leads NeuPath to believe there is an opportunity to acquire clinics at attractive valuations. For these same reasons, NeuPath also believes that acquiring clinics is an effective way to grow its geographic footprint and enter new markets.

*Corporate Wellness*
Studies have shown that chronic pain is more costly than cancer, HIV, and heart disease combined. This cost is mainly driven by lost productivity due to job loss and sick days. In an effort to help employees return to work and reduce productivity losses, NeuPath provides workplace health services and independent medical assessments to disability insurers and employers through its subsidiary, CompreMed. Disability insurers and employers contract with CompreMed to provide medical assessments for plan members or employees.

*Physician Staffing*
NeuPath provides physician staffing for provincial correctional institutions, federal correctional institutions, and hospital health departments across Canada.

*Clinical Research*
NeuPath provides contract research services to pharmaceutical companies. Research studies on chronic pain are underfunded and despite the large economic burden of chronic pain, only a fraction of health research spending is directed to chronic pain focused studies. Additional research benefits our patients and

care providers, so NeuPath is committed to participating in, funding, or generating more chronic pain research. NeuPath enrolled approximately 600 patients in a study focused on chronic pain and the impact of NeuPath's treatments on patients' lives. The Company expects results to be available in late 2020.

## Growth Strategy

The Company's growth strategy is focused on two key pillars:

- Organic growth – The Company's focus is to generate revenue growth by improving capacity utilization at its existing medical clinics. Capacity improved to 56% in 2019 compared to 29% in 2017, but was negatively impacted by COVID-19 in the three months ended March 31, 2020 and decreased to 52%.

- Strategic acquisitions – The market for medical clinics is highly fragmented in Canada. The Company plans to acquire medical clinics in other provinces to expand its footprint and continue to leverage its existing infrastructure.

## Significant Transactions

**Qualifying Transaction**
Subsequent to the interim period ending March 31, 2020, on April 24, 2020, the Company entered into an arrangement agreement ("Arrangement Agreement") letter of intent with Klinik Health Ventures Corp. ("Klinik") pursuant to which Klinik indirectly acquired all of the issued and outstanding common shares of NeuPath in consideration for common shares of Klinik. This resulted in a reverse takeover of Klinik by NeuPath as a Qualifying Transaction, as defined in the policies of the TSX Venture Exchange ("TSXV").

The transaction was carried out pursuant to the Arrangement Agreement under a court-approved statutory plan of arrangement pursuant to the Business Corporations Act (Ontario) to ultimately form the resulting issuer (the "Resulting Issuer"). The transaction closed on June 25, 2020 and the Resulting Issuer now carries on the business of NeuPath. Pursuant to the Definitive Agreement, the Company amalgamated with a wholly-owned subsidiary of Klinik, and now operates under the corporate name of 5033421 Ontario Inc.

**CompreMed Acquisition**
On March 31, 2019, the Company acquired 100% of the issued and outstanding shares of CompreMed in accordance with the Company's growth strategy. CompreMed has a national network of medical specialists and rehab clinics providing independent medical assessments for employers and insurers who seek a better understanding of their employees' or plan members' status with respect to a disability.

The Company acquired CompreMed for $157 in cash.

**Convertible Debenture Issuance**
From October 13, 2017 to May 15, 2018, the Company, through various tranches, completed a non-brokered private placement of convertible debenture units of NeuPath ("NeuPath Convertible Debenture Units") for aggregate gross proceeds of approximately $4.2 million. Each NeuPath Convertible Debenture Unit consisted of: (i) a NeuPath convertible debenture; and (ii) 2,500 NeuPath Warrants. In connection with the NeuPath Convertible Debenture Unit Offering, 1,041,250 NeuPath warrants were issued.

Each NeuPath convertible debenture was convertible at any time up to and including the date that is twenty-four months from the date of issuance at the conversion price (as defined below) and had a stated interest rate of 8%. Each NeuPath warrant issued in connection with the NeuPath Convertible Debenture Unit Offering, 8, entitled the holder thereof, subject to adjustments, to acquire one NeuPath share at any time on or before the date that is thirty-six (36) months from the date of issuance, at a price of $1.00 per NeuPath share.

The NeuPath convertible debentures were entitled to be converted into common shares at the discretion of the holder at the lesser of $1.00 per common share or a 25% discount to the price per common share upon the occurrence of a liquidity event (the “conversion price”).

A liquidity event is defined as follows (“Liquidity Event”):

- The completion of a public offering of common shares by the Company and listing of same on a Canadian or U.S. stock exchange;
- The sale for cash proceeds of all the issued and outstanding shares in the capital stock of the Company; and
- The amalgamation or any other corporate transaction involving the Company with or into another entity pursuant to which the common shares of the resulting issuer from such transaction are listed on a Canadian or U.S. stock exchange.

In the fourth quarter of 2019, the maturity date of the NeuPath convertible debentures was extended to March 31, 2020. Subsequently, on March 24, 2020, the maturity date was further extended to August 31, 2020.

The Company did not issue any convertible debentures during the three months ended March 31, 2020 or during the year ended December 31, 2019.

Pursuant to the Arrangement Agreement, the principal sum and all accrued and unpaid interest outstanding under the NeuPath convertible debentures was converted into NeuPath shares at the conversion price and each NeuPath share was deemed assigned and transferred by the holder thereof to Klinik in exchange for Klinik common shares at an exchange ratio of five (5) Klinik shares for each one (1) NeuPath share (the “exchange ratio”). Each Neupath warrant was deemed assigned and transferred to Klinik in exchange for Klinik warrants at the exchange ratio.

**Preferred Shares Issuance**

From October 31, 2017 to December 21, 2017, NeuPath completed a non-brokered private placement of Class A Preferred Share units of NeuPath (the “NeuPath Preferred Share Units”) for aggregate gross proceeds of $835,000. Each NeuPath Preferred Share Unit consisted of: (i) one NeuPath preferred share; and (ii) one-quarter of a NeuPath warrant. In connection with the preferred share unit offering, 835,000 NeuPath Preferred Shares and 208,750 NeuPath warrants were issued.

Each NeuPath preferred share entitled the holder thereof to receive an annual dividend equal to 8% of the initial NeuPath preferred share price of $1.00, which accrued quarterly in arrears and was payable in kind. Each issued and fully paid NeuPath preferred share may at any time be converted, at the option of the holder thereof, into NeuPath shares at the conversion price. Upon the occurrence of a liquidity event, the NeuPath preferred shares would have been automatically converted into NeuPath shares at the conversion price. In addition, the NeuPath preferred shares are required to be redeemed by NeuPath for cash at a price of $1.00 per NeuPath preferred share on the date that is two years from the date of issuance. On December 10, 2019, the NeuPath preferred share mandatory redemption period was extended to March 31, 2020. On March 25, 2020, the NeuPath preferred share mandatory redemption period was further extended to August 31, 2020.

The Company did not issue any NeuPath preferred shares during the three months ended March 31, 2020 or during the year ended December 31, 2019.

Pursuant to the Arrangement Agreement, each Neupath preferred share and all accrued and unpaid dividends thereon, was converted into a NeuPath shares in accordance with the articles of NeuPath preferred shares and each NeuPath share was deemed assigned and transferred by the holder thereof to Klinik in exchange for Klinik shares at the exchange ratio.

## Non-IFRS Financial Measures

The Company discloses non-IFRS measures (such as adjusted EBITDA) that do not have standardized meanings prescribed by IFRS. The Company believes that shareholders, investment analysts and other readers find such measures helpful in understanding the Company's financial performance. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may not have been calculated in the same way as similarly named financial measures presented by other companies.

**Adjusted EBITDA**

EBITDA refers to net income (loss) determined in accordance with IFRS, before depreciation and amortization, net interest expense (income) and income tax expense (recovery). The Company defines adjusted EBITDA as net income (loss) before depreciation and amortization, net interest expense (income) and income tax expense (recovery), plus stock-based compensation expense, restructuring, fair value adjustments, impairment and finance income. Management believes adjusted EBITDA is a useful supplemental measure to determine the Company's ability to generate cash available for working capital, capital expenditures, debt repayments, interest expense and income taxes.

| | **Three Months ended March 31, 2020** | Three Months ended March 31, 2019 |
|---|---|---|
| | **$** | $ |
| ***Net loss and comprehensive loss*** | **(830)** | (1,143) |
| **Add back:** | | |
| Depreciation and amortization | **632** | 636 |
| Net interest expense | **446** | 469 |
| Income tax expense | **100** | 128 |
| **EBITDA** | **348** | 90 |
| **Add back:** | | |
| Stock-based compensation | **25** | - |
| Fair value adjustments | **163** | 277 |
| Finance income | **(12)** | (14) |
| **Adjusted EBITDA** | **524** | 353 |

## Selected Financial Information

| | **Three Months ended March 31, 2020** | Three Months ended March 31, 2019 |
|---|---|---|
| ***Operations*** | **$** | $ |
| Clinic revenue | **10,792** | 10,243 |
| Non-clinic revenue | **810** | 678 |
| **Total Revenue** | **11,602** | 10,921 |
| | | |
| **Total operating expenses** | **12,181** | 11,673 |
| **Loss from operations** | **(579)** | (752) |
| Other expenses | **151** | 263 |
| **Income (loss) before income taxes** | **(730)** | (1,015) |
| Income tax expense | **100** | 128 |
| **Net income (loss) and total comprehensive income (loss)** | **(830)** | (1,143) |

| | **As at March 31, 2020** | As at December 31, 2019 |
|---|---|---|
| ***Financial Position*** | **$** | $ |
| Cash | **477** | 883 |
| Total assets | **35,902** | 37,990 |
| Total non-current liabilities | **9,350** | 10,181 |
| Total liabilities | **26,936** | 28,219 |
| Total equity | **8,966** | 9,771 |

## Results of Operations

### Medical Services

| | **Three Months ended March 31, 2020** | Three Months ended March 31, 2019 |
|---|---|---|
| | **$** | $ |
| Clinic revenue | **10,792** | 10,243 |
| Non-clinic revenue | **810** | 678 |
| Total revenue | **11,602** | 10,921 |

Total revenue is comprised of clinic revenue and non-clinic revenue. Total revenue was $11.6 million for the three months ended March 31, 2020 compared to $10.9 million for the three months ended March 31, 2019. The increase in total revenue was primarily related to capacity utilization improvements that improved to 52% in the quarter compared to 50% in the comparative period.

*Clinic revenue*
Clinic revenue was $10.8 million for the three months ended March 31, 2020 compared to $10.2 million for the three months ended March 31, 2019. Clinic revenue is based on medical services provided by InMedic, CPM and CompreMed. The increase in revenue from 2019 to 2020 was related to an improvement in capacity utilization from 50% to 52%, and inclusion of revenues from CompreMed, which was acquired on March 31, 2019 and not included in the comparative period.

*Non-clinic revenue*
Non-clinic revenue was $0.8 million for the three months ended March 31, 2020 compared to $0.7 million for the three months ended March 31, 2019. Non-clinic revenue is earned from physician staffing where NeuPath provides physicians for provincial correctional institutions, federal correctional institutions and hospital health departments across Canada, and from contract research services provided to pharmaceutical companies and clinical research organizations. This revenue fluctuates depending on the need for physicians in certain institutions and the timing and enrolment of clinical studies that the Company is working on.

**Significant Customers**
Under IFRS 8, *Operating Segments* (“IFRS 8”), major customers are those that account for greater than 10% of the Company’s consolidated revenues. The Company has one major customer that accounted for 92% of the Company’s total revenue for the three months ended March 31, 2020, and 93% for the three months ended March 31, 2019. The Company’s major customer is a government organization which minimizes credit risk.

**Operating Expenses**

| | **Three Months ended March 31, 2020** | Three Months ended March 31, 2019 |
|---|---|---|
| | **$** | $ |
| Cost of medical services | **9,371** | 8,803 |
| General and administrative | **1,395** | 1,458 |
| Occupancy costs | **346** | 321 |
| Depreciation and amortization | **623** | 622 |
| Interest cost | **446** | 469 |
| **Total operating expenses** | **12,181** | 11,673 |

Total operating expenses were $12.2 million for the three months ended March 31, 2020 compared to $11.7 million for the three months ended March 31, 2019. The increase for the current three-month period was related to an increase in medical services costs to support the increase in revenue.

**Cost of Medical Services**
Cost of medical services was $9.4 million for the three months ended March 31, 2020 compared to $8.8 million for the three months ended March 31, 2019. Cost of medical services increased, as expected, due to increased medical services revenue. Cost of medical services represented 80.7% of total revenues for the three months ended March 31, 2020, a slight increase from 80.6% for the three months ended March 31, 2019.

**General and Administrative**
General and administrative (G&A) expenses decreased to $1.4 million for the three months ended March 31, 2020 compared to $1.5 million for the three months ended March 31, 2019. The decrease in G&A expenses was related to cost saving initiatives that were implemented in the prior year, partially offset by an increase in professional fees related to the Company’s qualifying transaction that was announced in March 2020.

**Occupancy Costs**
Occupancy costs were $0.3 million for the three months ended March 31, 2020, unchanged compared to the three months ended March 31, 2019. Occupancy costs represent the costs related to leased and owned facilities. The Company leases eleven facilities and owns one facility.

**Depreciation and Amortization**
Depreciation and amortization expenses were $0.6 million for the three months ended March 31, 2020, unchanged compared to the three months ended March 31, 2019.

**Interest Cost**
Interest costs were $0.4 million and $0.5 million for the three months ended March 31, 2020 and March 31, 2019, respectively. Interest costs relate to the outstanding debt and interest charges related to the adoption of IFRS 16.

**Loss from Operations**
Loss from operations was $0.6 million for the three months ended March 31, 2020 compared to $0.8 million for the three months ended March 31, 2019. The improvement in loss from operations in 2020 was related to a 6% increase in revenue from an improvement in capacity utilization.

**Other Expenses**

| | **Three Months ended March 31, 2020** | Three Months ended March 31, 2019 |
|---|---|---|
| | **$** | $ |
| Fair value adjustments | **163** | 277 |
| Finance income | **(12)** | (14) |
| **Total other expenses** | **151** | 263 |

**Fair Value Adjustments**
Fair value adjustments were $0.2 million for the three months ended March 31, 2020 compared to $0.3 million for the three months ended March 31, 2019.

**Finance Income**
Finance income was $12 for the three months ended March 31, 2020 compared to $14 for the three months ended March 31, 2019.

**Net Loss and Total Comprehensive Loss**

| | **Three Months ended March 31, 2020** | Three Months ended March 31, 2019 |
|---|---|---|
| | **$** | $ |
| Net loss before income taxes | **(730)** | (1,015) |
| Income tax expense | **100** | 128 |
| **Net loss and total comprehensive income loss** | **(830)** | (1,143) |

**Net Income (Loss) and Total Comprehensive Income (Loss)**
Net loss improved to $0.8 million for the three months ended March 31, 2020 from $1.1 million for the three months ended March 31, 2019.

**Segments**
IFRS 8 requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and assessing its performance. The Company has one operating segment: medical services.

## Liquidity and Capital Resources

| | **Three Months ended March 31, 2020** | Three Months ended March 31, 2019 |
|---|---|---|
| | **$** | $ |
| Net loss and comprehensive loss | **(830)** | (1,143) |
| Items not involving current cash flows | **1,226** | 1,291 |
| Cash provided by operations | **396** | 148 |
| Net change in non-cash working capital | **481** | (954) |
| Cash provided by (used in) operating activities | **877** | (806) |
| Cash used in investing activities | **(19)** | (239) |
| Cash provided by (used in) financing activities | **(1,264)** | 1,675 |
| Net change in cash during the period | **(406)** | 630 |
| Cash, beginning of period | **883** | 1,422 |
| **Cash, end of period** | **477** | 2,052 |

**Cash**
Cash was $0.5 million as at March 31, 2020 compared to $0.9 million as at December 31, 2019 and $2.1 million as at March 31, 2019.

**Operating Activities**
Cash provided by operating activities was $0.9 million for the three months ended March 31, 2020 compared to cash used in operating activities of $0.8 million for the three months ended March 31, 2019.

The $1.7 million improvement in cash used in operating activities for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 was primarily related to a working capital recovery of $0.4 million in 2020, due to the collection of accounts receivable compared to a $0.9 million working capital investment in the comparative quarter.

**Investing Activities**
Cash used in investing activities was $19 for the three months ended March 31, 2020 compared to $0.2 million for the three months ended March 31, 2019. Cash used in investing activities for the three months ended March 31, 2020 related to the acquisition of equipment for the medical clinics. Cash used in investing activities for the three months ended March 31, 2019 was related to the acquisition of CompreMed.

**Financing Activities**
Cash used in financing activities was $1.3 million for the three months ended March 31, 2020 compared to cash provided by financing activities of $1.7 million for the three months ended March 31, 2019. Cash used in financing activities for the three months ended March 31, 2020 was primarily related to the $0.6 million payment for the InMedic acquisition that was deferred for two years as part of the acquisition consideration, $0.4 million in lease obligation payments, and $0.3 million in scheduled debt payments.

Cash provided by financing activities for the three months ended March 31, 2019 was primarily related to $2.2 million from the issuance of common shares, partially offset by $0.2 million in scheduled debt payments and $0.4 million in lease obligation payments.

**Working Capital**
The Company defines working capital as current assets, less accounts payable and accrued liabilities, provisions, and current income tax liabilities. The Company anticipates that its current working capital and the revenue it expects to generate from its continuing operations will be sufficient to fund operations and working capital needs as currently planned through 2020. However, unexpected increases in costs and expenses due to operational decisions made by the Company and/or factors beyond the Company’s control such as the COVID-19 pandemic could cause a material impact on working capital resources and the profitability of the Company.

**Capital Structure**
The Company's strategy includes organic growth through improved capacity utilization, and growth through strategic acquisition. To execute this strategy, the Company may need to access additional resources under existing loan arrangements or seek alternate sources of financing including through equity issuances.

## Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

*Measurement*
At initial recognition, the Company measures its financial asset or financial liability that are subsequently measured at amortized cost at its fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets or financial liabilities subsequently measured at fair value through profit or loss ("FVTPL") are expensed in profit or loss.

Measurement in subsequent periods depends on the classification of the financial instrument. The Company classifies its financial instruments depending on the purpose for which the instruments were acquired and their characteristics.

The Company has classified its financial instruments as follows:

| Financial instrument | Classification | Measurement | Fair Value Hierarchy |
|---|---|---|---|
| **Assets** | | | |
| Cash | Amortized cost | Amortized cost | N/A |
| Accounts receivable | Amortized cost | Amortized cost | N/A |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost | N/A |
| Provisions | Amortized cost | Amortized cost | N/A |
| Derivative financial liabilities | FVTPL | Fair value | Level 3 |
| Conversion feature on preferred shares | Amortized cost | Amortized cost | N/A |
| Preferred shares liability | Amortized cost | Amortized cost | N/A |
| Due to related parties | Amortized cost | Amortized cost | N/A |
| Long-term debt | Amortized cost | Amortized cost | N/A |
| Convertible debt | Amortized cost | Amortized cost | N/A |

**Fair values**
IFRS 13, *Fair Value Measurements* requires disclosure of a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets
- Level 2 - Observable inputs other than quoted prices in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in

markets that are note active; or other inputs that are observable or can be corroborated by observable market data
- Level 3 - Significant unobservable inputs that are supported by little or no market activity

The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company did not have any transfer of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three months ended March 31, 2020.

Derivative financial liabilities and conversion feature on preferred shares are classified as Level 3 fair value financial instruments on the fair value hierarchy.

| | Derivative Financial Liabilities | Conversion Feature on Preferred Shares | Total Level 3 Financial Instruments |
|---|---|---|---|
| | $ | $ | $ |
| Balance, December 31, 2019 | 1,175 | 236 | 1,411 |
| Fair value adjustments | 306 | 61 | 367 |
| **Balance, March 31, 2020** | **1,481** | **297** | **1,778** |

## FINANCIAL RISK MANAGEMENT

**Credit Risk**

The Company, in the normal course of business, is exposed to credit risk from its customers. Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk on its cash and accounts receivable. The Company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. As the Company does not utilize credit derivatives or similar instruments, the maximum exposure to credit risk is the full amount of the carrying value of its cash and accounts receivable. A significant amount of the Company's accounts receivable is from a government organization which lowers the amount of credit risk exposure in accounts receivable.

The Company's cash is held with two financial institutions in various bank accounts. These financial institutions are major banks in Canada which the Company believes lessens the degree of credit risk.

### Risk Factors

The following is a discussion of liquidity risk and market risk and related mitigation strategies that have been identified. This is not an exhaustive list of all risks nor will the mitigation strategies eliminate all risks listed.

### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company's objective is to provide for expected cash requirements and accommodate for changes in liquidity needs. The Company manages this risk by managing its capital structure, through continuous monitoring of its actual and projected cash flows.

As at March 31, 2020, the Company's financial liabilities had contractual maturities as summarized below:

| | | Current | Non-current | | |
|---|---|---|---|---|---|
| | Total<br>$ | Within 12 Months<br>$ | 1 to 2 Years<br>$ | 2 to 5 Years<br>$ | > 5 years<br>$ |
| Accounts payable and accrued liabilities | 4,684 | 4,684 | - | - | - |
| Provisions | 712 | 712 | - | - | - |
| Due to related parties | 3,674 | - | 3,674 | - | - |
| Preferred shares liability | 774 | 774 | - | - | - |
| Long-term debt | 4,671 | 3,491 | 192 | 988 | - |
| Convertible debt | 4,832 | 4,832 | - | - | - |
| Derivative financial liabilities | 1,481 | 1,481 | - | - | - |
| Conversion feature on preferred shares | 297 | 297 | - | - | - |
| | **21,125** | **16,271** | **3,866** | **988** | **-** |

The Company's ability to satisfy its debt obligations will depend principally upon its future operating performance. The Company's inability to generate sufficient cash flow to satisfy its debt service obligations or to refinance its obligations on commercially reasonable terms could materially adversely impact the Company's business, financial condition or operating results.

**Interest Rate Risk**

Financial instruments that potentially subject the Company to cash flow interest rate risk are those assets and liabilities with a variable interest rate. Only one of the Company's loan facilities included in long-term debt includes a variable interest rate. Accordingly, with respect to the carrying and fair values of interest-bearing liabilities, an assumed 25-basis point increase or decrease in interest rates would not have a significant impact on net loss and comprehensive loss.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's lease obligations and long-term debt are at fixed rates of interest. Those that are non-interest bearing are carried at amortized cost and calculated using discount rates appropriate to the related debt.

The Company's policy is to minimize interest rate cash flow risk exposures on its long-term financings. The Company's loans and borrowings and lease obligations are at fixed interest rates.

## Litigation

From time to time, during the ordinary course of business, the Company may be threatened with, or may be named as, a defendant in various legal proceedings including lawsuits. Such proceedings may include, but are not limited to product liability, personal injury, breach of contract, and lost profits or other consequential damage claims.

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

# Related Party Transactions

**Loans from Related Parties**

The following related party balances are outstanding as at:

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Due to Bloom Burton & Co. Inc. | **3,631** | 3,577 |
| Due to Bloom Burton Development Corp. | **43** | 43 |
| Promissory note | **-** | 606 |
| | **3,674** | 4,226 |

The amount due to Bloom Burton & Co. Inc. ("BBCI"), a prior shareholder of the Company, is non-interest bearing, unsecured and due on demand. BBCI has agreed not to call the loan prior to December 31, 2021.

The amount due to Bloom Burton Development Corp. ("BBDC"), a prior shareholder of the Company, is non-interest bearing, unsecured and due on demand. BBDC has agreed not to call the loan prior to December 31, 2021.

On February 26, 2018, as part of the acquisition of Renaissance Asset Management (London) Inc., a promissory note in the amount of $650 was issued to the vendors as part of the purchase consideration. The promissory note bears interest at 4% per annum and matures on February 26, 2020. A partial repayment was made against the promissory note during the year ended December 31, 2019 in the amount of $80. The promissory note is subordinated to the Royal Bank of Canada loans and is secured with a second fixed charge on the lands owned by 2276321 Ontario Inc.

The promissory note was initially recognized at fair value using a discount rate of 12%. It is subsequently carried at amortized cost using the effective interest rate method less any payments made during the year.

During the quarter, the remaining balance of the promissory note was paid in full.

# Outstanding Share Data

As at March 31, 2020, the number of common shares outstanding was 16.6 million consistent with December 31, 2019.

As at March 31, 2020, the Company had 835,000 NeuPath preferred shares outstanding. The NeuPath preferred shares were issued during the year ended December 31, 2017 for net proceeds of $0.7 million. The preferred shares entitled the holder to receive an annual dividend equal to 8% of the initial price of $1.00, which accrued quarterly in arrears and is payable in kind. Pursuant to the Arrangement Agreement, on June 25, 2020, the NeuPath preferred shares and all accrued and unpaid dividends thereon were exchanged at the conversion price for [1,351,796] NeuPath shares and subsequently exchanged to Klinik shares at the exchange ratio.

The Company has $4.1 million of convertible debentures outstanding as at March 31, 2020. The convertible debentures bore interest at a rate of 8% per annum, which accrued quarterly. Pursuant to the Arrangement Agreement, on June 25, 2020, the principal sum and all accrued and unpaid interest outstanding on the convertible debentures was exchanged at the conversion price for [6,724,691] NeuPath shares and were subsequently exchanged for Klinik shares at the exchange ratio.

As at March 31, 2020, the Company has 21.1 million warrants outstanding with strike prices ranging from $0.0001 to $2.00 per share. Pursuant to the Arrangement Agreement, on June 25, 2020, all outstanding NeuPath warrants were exchanged for Klinik warrants on substantially the same terms and condition.

As at March 31, 2020, there were 1,075,000 options outstanding of which 171,250 have vested. Pursuant to the Arrangement Agreement, each outstanding option to purchase NeuPath shares were exchanged for options to purchase Klinik shares on substantially the same terms and conditions.

## Critical Accounting Policies and Estimates

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make estimates and assumptions at the date of the Consolidated Financial Statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities 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. All significant accounting policies are disclosed in Note 3, *Basis of Presentation* of the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2020.

The Company adopted certain new standards, interpretations, amendments and improvements to existing standards that were issued by the IASB or IFRS Interpretations Committee and are mandatory for fiscal periods beginning on or after January 1, 2020, which did not have a significant impact on the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2020.

## Risk Factors

Prior to making an investment decision, investors should consider the risks and uncertainties discussed in detail in the annual MD&A attached as Schedule "D" to the filing statement of Klinik Health Ventures Corp. dated May 29, 2020, a copy of which filed under the Resulting Issuer's (NeuPath Health Inc.) SEDAR profile at www.sedar.com. Additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect the Company's business. If any one or more of the following risks occur, the Company's business, financial condition and results of operations could be seriously harmed.