AVISA DIAGNOSTICS INC. (formerly FogChain corp.)

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and six months ended June 30, 2021 and 2020
(Expressed in US Dollars)

The following Management's Discussion & Analysis ("MD&A") is intended to help the reader understand our operations and our present business environment. This MD&A is provided as a supplement to and should be read in conjunction with Avisa Diagnostics Inc.'s (formerly FogChain Corp.) (the "Company" or "Avisa") unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2021 and 2020 (the "Interim Financial Statements"). The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise specified, all financial data is presented in United States Dollars. This MD&A is prepared as of August 27, 2021.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Our MD&A includes forward-looking statements that are subject to risks and uncertainties that may result in actual results differing from the statements we make. Certain information included or incorporated by reference in this report may contain forward-looking statements. This information may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "plan," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Certain risks underlying our assumptions are highlighted below; if risks materialize, or if assumptions prove otherwise to be untrue, our results will differ from those suggested by our forward-looking statements and our results and operations may be negatively affected.

Forward-looking statements in this report include statements regarding our anticipated revenue and profitability, projected costs, business strategy, objectives, trends in our industry, financing plans and our anticipated needs for working capital. Actual events or results may differ materially from those discussed in forward-looking statements. There can be no assurance that the forward-looking statements currently contained in this report will in fact occur. The Company bases its forward-looking statements on information currently available to it. The Company disclaims any intent or obligations to update or revise publicly any forward-looking statements whether as a result of new information, estimates or options, future events or results or otherwise, unless required to do so by law. Forward-looking information reflects current expectations of management regarding future events and operating performance as of the date of this document. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved.

A number of factors could cause actual results to differ materially from the results discussed in forward-looking information, including, without limitation: our need for additional financing and our estimates regarding our capital requirements, future revenues and profitability; unfavorable economic conditions could have an adverse effect on our business; our ability to successfully market and sell our products and services; we may be subject to competition and technological risk which may impact the price and amount of products we can sell and the nature of products we can provide; regulatory changes that are unfavorable in the states where our operations are concentrated; changes within the medical industry and third-party reimbursement policies and our estimates of associated timing and costs with the same; changes in key United States federal or state laws, rules, and regulations; our ability to establish, maintain and defend intellectual property rights; risks related to United States antitrust regulations; our senior management has been key to our development and we may be adversely affected if we are unable to retain them, conflicts of interest develop or we lose any key member of our senior management team; risks associated our dependence on third-party suppliers; changes in the industry and the economy may affect the Company's business; risks related to the competitive nature of the medical industry; evolving regulation of corporate governance and public disclosure may result in additional corporate expenses; adverse events relating to our product or services could result in risks relating to product liability, medical malpractice, other legal claims, insurance and other liabilities; various risks associated with legal, regulatory or investigative proceedings; risks associated with governmental investigations into marketing and other business practices; we are subject to health and safety risks within our industry; changes in our effective income tax rates; risks related to the failure of our employees and third-party contractors to appropriately record or document services that they provide; risks related to criminal or civil sanctions in connection with failure to comply with privacy regulations regarding the use and disclosure of patient information; and the adverse effects of health epidemics on our business, including the global COVID-19 pandemic.

EXECUTIVE OVERVIEW

Avisa Diagnostics Inc. (formerly FogChain Corp.) (“Avisa” or the "Company") was incorporated on February 7, 1984 under the Business Corporations Act (Ontario). The Company’s head office, principal address and records office is Suite 2050-1055 West Georgia Street, PO Box 11121, Royal Centre, Vancouver, BC V6E 3P3. The registered office is Suite 4400-181 Bay Street, Toronto, Ontario M5J 2T3. The Company is listed on the Canadian Securities Exchange (“CSE”) under the symbol “AVBT”.

Reverse takeover

Avisa Pharma Inc. (“Avisa Pharma”) was incorporated under the laws of the State of New Mexico on September 23, 2010. Avisa Pharma is an innovation organization focused on commercializing pulmonary assays for the detection of infectious diseases. Avisa Pharma operates with a team of engineers and product development specialists to create and design diagnostic instruments to be manufactured and utilized by third parties.

On April 20, 2021, pursuant to a merger and reorganization agreement dated February 1, 2021 (the “Merger Agreement”), the Company acquired the issued and outstanding shares of Avisa Pharma in exchange for securities of the Company (the “Reverse Takeover”). Upon completion of the Reverse Takeover, the Company changed its name to Avisa Diagnostics Inc. and will continue the business of Avisa Pharma.

For accounting purposes, Avisa Pharma is treated as the accounting acquirer, and the Company (legal parent) is treated as the accounting acquiree in these condensed interim consolidated financial statements. As Avisa Pharma was deemed to be the acquirer for accounting purposes, its assets, liabilities, and operations since incorporation are included in these financial statements at their historical carrying values. The Company’s results of operations are included from the transaction date, April 20, 2021. The comparative figures are those of Avisa Pharma prior to the Reverse Takeover.

Business of Avisa

The Avisa BreathTest™ (“ABT”) is a biomarker, quantitative, point-of-care test for rapidly detecting pulmonary infections due to certain virulent pathogens without the need to collect and culture sputum or other biological samples. The ABT is based on the presence of the urease enzyme found in certain bacterial species that cause pneumonia, such as S. aureus, P. aeruginosa, Klebsiella and H. influenzae. Live urease-containing bacteria can be detected using inhaled 13C-urea, which is converted by these bacteria to labeled carbon dioxide (13CO2) and ammonia. The non-radioactive, isotopic ratio of 13CO2/12CO2 in the exhaled breath of the patient is measured by the Avisa spectrometer. The spectrometer, together with the simple inhaled drug/device combination, measures the whole lung, live organisms in just 10 minutes, akin to a thermometer.

Avisa is currently developing ABT for detection and patient monitoring of bacterial load in Post-COVID-19 ‘long haulers’, who can develop acute respiratory disease, and ventilator-associated pneumonia (“VAP”), an indication with high morbidity and mortality.

Bronchiectasis in Post-COVID-19 Long Haulers: Bronchiectasis is a condition whereby the bronchial tubes are permanently damaged, widened and thickened, allowing bacteria and mucus build up in the lungs. This results in frequent infections and airway blockage. Metadata studies cite 52% of Post-COVID-19 patients are diagnosed with ‘traction’ bronchiectasis. The ABT has the potential to uniquely address this emerging problem, prevent exacerbations and positively impact the healthcare system with better health outcomes. Leading pulmonologists are setting up Post-COVID-19 follow-up clinics in major medical centers, similar to existing clinics for patients with chronic obstructive pulmonary disorder (“COPD”). Avisa is planning to submit an Investigational Device Exemption (“IDE”) application to the U.S. Food and Drug Administration (“FDA”) in the second quarter of 2022 to initiate a pivotal trial in this indication. The trial, if successful, will serve as the basis for submitting a Premarket Approval Application (“PMA”).

Ventilator Associated Pneumonia (VAP): In the U.S. alone, there are approximately 400,000 cases of VAP annually. Approximately 25% of the 1.7 million intensive care unit (ICU) patients who are on ventilators each year develop VAP. VAP results in extended hospital stays and high mortality; 30-50% of VAP patients die. Avisa believes that the ABT will provide a quantitative measurement of bacterial load to detect colonization and guide treatment before virulent VAP establishes itself as well as monitor VAP antibiotic therapeutic interventions. Avisa plans to submit a supplemental IDE application to the FDA to initiate a pivotal trial in VAP in the fourth quarter of 2023.

Additional 13C-urea indications for potential future development include community- and hospital-acquired pneumonia as well as COPD.

Avisa has been working to manage three elements of risk in order to execute on its vision. Avisa has worked to lower risk from a clinical perspective by leveraging an existing technology in a novel application. Avisa has worked to lower risk from a fundraising perspective through a capital financing arrangement for up to CAD$52 million under the share subscription facility agreement entered into between Avisa, GEM Yield Bahamas Ltd. and GEM Global Yield LLC SCS on January 23, 2020, and as amended on March 22, 2021 (the "GEM Agreement"). Avisa intends that the GEM Agreement will supplement Avisa's cash needs through the anticipated product development and the U.S. Food and Drug Administration (the "FDA") pivotal trial period before commercialization. Finally, Avisa intends to lower risk from a manufacturing perspective by contracting experienced medical device and drug manufacturers for the manufacture of its devices and drug products when Avisa's products are ready to be commercialized.

Avisa intends to contract the manufacturing of both its laser spectrometer and the inhaled dose of pharmaceutical grade urea labeled with C13 that has been designed for nebulization delivery to experienced medical device and drug manufacturing organizations. The disposable nebulizer has already been approved by the FDA for use in ambulatory and ventilated patients and will be procured from a dedicated manufacturing organization.

To date, Avisa has financed its cash requirements primarily from the sale of securities to investors. Avisa's ability to maintain the carrying value of its assets is dependent on successfully capitalizing the business and commercializing its technologies, the outcome of which cannot be predicted at this time. In the future, it will be necessary for Avisa to raise additional funds for the continuing development of its business plan.

RECENT DEVELOPMENTS

During the three and six months ended June 30, 2021, the Company continued the development of its breath test system and its clinical and regulatory program. Avisa continues progress toward the commercialization of its technologies.

In its initial endeavor to go public, the Avisa Pharma entered into a merger agreement with Panorama Capital Corp. On January 6, 2021, the merger agreement between Panorama Capital Corp. and Avisa Pharma was terminated. As a result of the termination, the proceeds of the private placement totaling 2,206,525 subscription receipts at a price of CAD$0.64 per subscription receipt for gross proceeds of $1,109,123 (CAD $1,412,176) were returned to investors. Avisa Pharma recovered $58,407 of related financing fees from the agent and the remaining $109,430 (CAD $139,398) was paid by the agent in exchange for a promissory note. The promissory note was repaid on April 20, 2021 using proceeds from a private placement concurrent with the Reverse Takeover.

On January 12, 2021, Avisa Pharma executed a Letter of Intent for the reverse takeover of FogChain Corp. ("FogChain"), a company publicly listed on the Canadian Securities Exchange.

On February 1, 2021, Avisa Pharma executed a merger agreement and plan of reorganization (the "Merger Agreement"), which superseded the Letter of Intent dated January 12, 2021, for the triangular merger between Avisa Pharma, FogChain, and a wholly owned Delaware subsidiary of FogChain ("Subco") pursuant to the laws of the State of Delaware.

On April 20, 2021, Avisa Pharma completed the merger with FogChain in accordance with the Merger Agreement. The combined public company resulting from the Reverse Takeover carries on the business of Avisa Pharma. On April 16, 2021, concurrent with the Reverse Takeover, Avisa Pharma raised gross proceeds of $693,336 in a private placement financing of subscription receipts (the "Subscription Receipts"). Immediately prior to the closing of the Reverse Takeover, the Subscription Receipts were converted into common shares of the Company. In addition, all of Avisa Pharma's outstanding convertible debt, interest payable, senior notes, and preferred shares were converted into common shares of the Company. All of Avisa Pharma's options and warrants were exchanged for options and warrants of the Company.

On May 18, 2021, the Company began trading on the CSE under the ticker AVBT. The public listing enables the Company to reach new investors and access new sources of funding as well as permits the Company to draw down against the GEM Agreement. For any draw downs pursuant to the GEM Agreement, the subscription price of the common shares issued will be equal to 90% of the average closing price of past 15 consecutive trading days of common shares of the Company on the CSE.

On June 2, 2021, the Company appointed Barbara Bunger, PhD as Vice President, Clinical Development. In this newly created position, Dr. Bunger will be responsible for designing and executing the clinical development plan to achieve FDA premarket approval (PMA). Barbara Bunger has over 30 years of industry experience and a highly successful track record in the development of clinical and regulatory strategy, global clinical research trial operations and overall evidence generation planning required to support reimbursement and market adoption.

On June 22, 2021, the Company appointed G. Michael Landis, CPA as Chief Financial Officer of the Company. Mr. Landis will replace Matthew Culler, who has led the Company through the merger with Fogchain Corp and the listing on the CSE. Mr. Culler will remain with Avisa as an advisor during a transition period. G. Michael Landis has over 25 years of finance and accounting experience in a variety of industries and has strong public company expertise, including the areas of capital market transactions, investor relations and financial reporting.

SHARE CAPITAL HIGHLIGHTS IN THE SIX MONTHS ENDED JUNE 30, 2021

On April 20, 2021, in connection with the Reverse Takeover, the Company completed the following common share transactions:

i. Issued 21,559,892 common shares with a fair value of $7,159,186 pursuant to the settlement of convertible debt and accrued interest.

ii. Issued 6,184,843 common shares with a fair value of $1,360,667 pursuant to the settlement of senior notes.

iii. Issued 19,526,387 common shares with a fair value of $14,676,084 pursuant to the exchange of 4,172,905 Series A Preferred Shares with a par value of $2,384 and 2,937,001 Series A-1 Preferred Shares with a par value of $1,678. Included in the amount converted to common share capital was accrued dividends of $13,877,057 and a share premium of $794,965.

iv. Avisa Pharma completed a private placement of 1,540,741 subscription receipts for aggregate proceeds of $693,336 at a price of $0.45 per subscription receipt. Each subscription receipt was converted into one common share of the Company upon closing of the Reverse Takeover.

v. Pursuant to the Merger Agreement, the Company exchanged shares of Avisa Pharma for shares of FogChain Corp. on a one-to-one basis resulting in the classification of 15,208,674 shares of the Company with a value of $6,843,903 as restricted voting common shares.

vi. As part of the consideration in the Reverse Takeover, the Avisa Pharma was deemed to have issued 5,327,348 common shares and 1,117,800 restricted voting common shares with an aggregate fair value of $2,900,317 to the shareholders of FogChain Corp.

DEVELOPMENTS SUBSEQUENT TO JUNE 30, 2021

On July 19, 2021, the Company closed a non-brokered private placement to issue 1,390,000 common shares of the Company for gross proceeds of $294,399 (CAD $375,300) at a price of CAD $0.27 per common share.

On August 25, 2021, the Company closed a non-brokered private placement to issue 632,000 common shares of the Company for gross proceeds of $100,000 (CAD $126,400) at a price of CAD $0.20 per common share.

SELECTED FINANCIAL INFORMATION

The following table summarizes selected information as at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
	$	$
Cash	**97,601**	438,840
Total assets	**2,825,460**	1,426,185
Current liabilities	**2,717,524**	26,215,196
Total liabilities	**3,614,891**	26,899,757
Working capital surplus (deficiency)	**(2,566,795)**	(24,810,699)

The following table summarizes the results of operations for the three months ended June 30, 2021 and 2020:

	For the three months ended	
	June 30, 2021	June 30, 2020
	$	$
Salaries and benefits	**279,679**	106,093
Consulting and professional fees	**330,430**	159,570
Research and development	**53,039**	11,888
Stock-based compensation	**12,546**	28,957
General and administration and other operating expenses	**112,358**	38,031
Depreciation	**6,361**	2,800
Net loss from operations	**794,413**	347,339
Listing expense	**3,904,000**	-
Interest expense	**67,309**	356,607
Other income	**(67,413)**	(234,147)
Government grant income	**(167,008)**	-
Cumulative translation adjustment	**170**	-
Net loss and comprehensive loss	**4,531,471**	469,799
Weighted average number of common shares – basic and diluted	**32,730,873**	2,288,773
Loss per common share – basic and diluted	**0.14**	0.21

Q2 2021 compared to Q2 2020

During the three months ended June 30, 2021 and 2020, the Company had net loss from operations of $794,413 and $347,339, respectively and net loss and comprehensive loss of $4,531,471 and $469,799, respectively. Significant drivers of net loss from operations and net loss and comprehensive loss were as follows:

- Salaries and benefits increased by $174k over the prior year quarter driven by additional personnel needs related to completing the Reverse Takeover.

- Consulting and professional fees increased by $171k over the prior year quarter primarily due to incremental fees incurred as a result of becoming a public company.

- Research and development expense increased by $41k over the prior year quarter as a result of the Company's continued research and development activities related to the Avisa BreathTest™.

- General and administration and other operating expenses contain travel expenses, insurance, rent, and other general and administrative expenses related to operating the business. These expenses increased by $74k over the prior year quarter primarily due to increased business activity related to the Reverse Takeover.

- The listing expense was incurred as a result of the Reverse Takeover transaction and is a one-time non-cash expense resulting from the fair value of shares exchanged.

- Interest expense decreased $289k over the prior year quarter as a result of the conversion of the Company's convertible debt, senior notes and preferred shares into common shares upon closing of the Reverse Takeover.

- Other income includes non-cash impairment, foreign exchange, accretion, revaluation of derivative instruments, and accounting gains and losses. The primary driver for the decrease of $167k over the prior year quarter is due to the revaluation of derivatives resulting in a $433k gain in the three months ended June 30, 2020. The gain on revaluation of derivatives was offset by $213k of accretion expense in the same period. Upon closing the Reverse Takeover, the Company no longer has any remaining derivative instruments.

- Government grant income in the three months ended June 30, 2021 is the result of the government forgiveness of loans acquired in the Reverse Takeover from FogChain Corp.

The following table summarizes the results of operations for the six months ended June 30, 2021 and 2020:

	For the six months ended	
	June 30, 2021	June 30, 2020
	$	$
Salaries and benefits	**444,049**	202,555
Consulting and professional fees	**382,818**	198,096
Research and development	**64,221**	12,284
Stock-based compensation	**33,695**	34,556
General and administration and other operating expenses	**144,599**	78,427
Depreciation	**9,669**	5,599
Net loss from operations	**1,079,051**	531,517
Listing expense	**3,904,000**	-
Interest expense	**454,256**	708,884
Other (income) expenses	**(1,925,929)**	1,217,817
Government grant income	**(167,008)**	-
Cumulative translation adjustment	**170**	**-**
Net loss and comprehensive loss	**3,344,540**	**2,458,218**
Weighted average number of common shares – basic and diluted	**17,593,917**	2,288,773
Loss per common share – basic and diluted	**0.19**	1.07

Six months ended June 30, 2021 compared to the six months ended June 30, 2020

During the six months ended June 30, 2021 and 2020, the Company had net loss from operations of $1,079,051 and $531,517, respectively and net loss and comprehensive loss of $3,344,540 and $2,458,218, respectively. Significant drivers of net loss from operations and net loss and comprehensive loss were as follows:

- Salaries and benefits increased by $241k over the prior year period primarily driven by additional personnel needs related to completing the Reverse Takeover.

- Consulting and professional fees increased by $185k over the prior year period primarily due to incremental fees incurred as a result of becoming a public company.

- Research and development expense increased by $52k over the prior year quarter as a result of the Company's continued research and development activities related to the Avisa BreathTest™.

- General and administration and other operating expenses contain travel expenses, insurance, rent, and other general and administrative expenses related to operating the business. These expenses increased by $66k over the prior year period primarily due to increased business activity related to the Reverse Takeover.

- The listing expense was incurred as a result of the Reverse Takeover transaction and is a one-time non-cash expense resulting from the fair value of shares exchanged.

- Interest expense decreased $255k over the prior year quarter as a result of the conversion of the Company's convertible debt, senior notes and preferred shares into common shares upon closing of the Reverse Takeover.

- Other (income) expenses includes non-cash impairment, foreign exchange, accretion, revaluation of derivative instruments, and accounting gains and losses. The primary reason for income of $1.9m compared to prior year period expense of $1.2m is due to the revaluation of derivatives resulting in a $1.9m gain in the six months ended June 30, 2021 as the Company's derivative liabilities were valued at $nil at March 31, 2021. Upon closing the Reverse Takeover, the Company no longer has any remaining derivative instruments.

- Government grant income in the six months ended June 30, 2021 is the result of the government forgiveness of loans acquired in the Reverse Takeover from FogChain Corp.

A summary of quarterly results is as follows:

	June 30, 2021	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**
	$	**$**	**$**	**$**
Total revenues	**-**	**-**	**-**	**-**
Loss (income) and comprehensive loss (income)	**(4,531,471)**	1,186,931	(1,658,714)	40,173
Total assets	**2,825,460**	28,864	1,426,185	1,158,147
Working capital surplus (deficiency)	**(2,566,795)**	(23,569,815)	(24,810,699)	(23,952,940)
Long-term liabilities	**897,367**	673,462	684,561	81,860
Loss per share – basic and diluted	**(0.14)**	0.52	(0.72)	0.02
	June 30, 2020	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**
	$	**$**	**$**	**$**
Total revenues	**-**	**-**	**-**	**-**
Loss (income) and comprehensive loss (income)	(469,799)	(1,988,419)	(645,098)	(657,180)
Total assets	150,262	309,993	137,491	363,653
Working capital surplus (deficiency)	(23,839,583)	(23,497,089)	(21,517,068)	(7,168,012)
Long-term liabilities	81,652	-	-	-
Loss per share – basic and diluted	(0.21)	(0.87)	(0.28)	(0.29)

OUTLOOK

Avisa expects operating expenses to increase as the Company boosts investment in product development and clinical activities designed to develop and demonstrate its breath test platform. Avisa is planning to submit an IDE application to the FDA in the second quarter of 2022 to initiate a pivotal trial in Bronchiectasis. The trial, if successful, will serve as the basis for submitting a PMA.

Avisa expects results from non-operating expenses to be far less volatile as Avisa's remaining debt consists of promissory notes and government loans with fixed interest rates, significantly lower accretion and no derivative instruments.

Avisa is projected to continue to operate at a net loss through at least 2023 as its commercial products complete their development and regulatory processes. As described under "Liquidity and Capital Resources" below, Avisa will rely on continued investor funding to support the working capital needs of the business until commercial efforts provide sufficient operating profits to fund the cash needs of the Company.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2021 and December 31, 2020, Avisa had cash of $97,601 and $438,840, respectively. The cash is primarily a reflection of cash generated from financing activities less cash used for operating activities. Avisa expects to meet its short-term obligations through cash received pursuant to private placements, the GEM Agreement and other financing activities. Since inception, Avisa has financed its operations primarily through equity and debt financings.

Cash used in operating activities for the six months ended June 30, 2021 and 2020 was $870,591 and $406,029, respectively. Cash provided by (used in) financing activities for the six months ended June 30, 2021 and 2020 was ($554,997) and $431,468, respectively.

At present, Avisa has no operating income. Avisa intends to finance its future requirements through a combination of debt and/or equity issuances, including the net proceeds of the Reverse Takeover and the use of the GEM Agreement. However, there is no assurance that Avisa will be able to obtain such financings or obtain them on favorable terms. These uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Avisa updates its forecasts on a regular basis and will consider additional financing sources as appropriate.

The following table summarizes the relative maturities of the financial liabilities of the Company:

June 30, 2021	Total	Less than 1 year	1 – 3 years	4 – 5 years	Over 5 years
	$	$	$	$	$
Accounts payable and accrued liabilities	1,866,284	1,866,284	-	-	-
Senior notes	-	-	-	-	-
Promissory notes	-	-	-	-	-
Convertible debt	-	-	-	-	-
Convertible debt interest	-	-	-	-	-
Warrants liability	-	-	-	-	-
Preferred shares	-	-	-	-	-
Lease liability	193,444	44,398	149,046	-	-
Promissory note	623,274	-	623,274	-	-
Government loan	74,691	-	-	74,691	-
Government grant	50,356	-	-	50,356	-
GEM Fee payable	806,842	806,842	-	-	-
Total	3,614,891	2,717,524	772,320	125,047	-

December 31, 2020	Total	Less than 1 year	1 – 3 years	4 – 5 years	Over 5 years
	$	$	$	$	$
Accounts payable and accrued liabilities	904,810	904,810	-	-	-
Senior notes	1,360,667	1,360,667	-	-	-
Senior notes derivative	1,362,371	1,362,371	-	-	-
Promissory note	684,561	-	684,561	-	-
Convertible debt	4,518,062	4,518,062	-	-	-
Convertible debt interest	2,401,629	2,401,629	-	-	-
Convertible debt derivative	523,570	523,570	-	-	-
Warrants liability	330,622	330,622	-	-	-
Preferred shares liability	13,704,342	13,704,342	-	-	-
Subscriptions received	1,109,123	1,109,123	-	-	-
Total	26,899,757	26,215,196	684,561	-	-

As of June 30, 2021 and December 31 2020, the Company has no material contractual obligations, other than those obligations relating to its debt agreements as described above. The Company has a month-to-month property lease arrangement with an unrelated related party.

OUTSTANDING SHARE DATA

As at August 27, 2021, the Company had:

- 43,241,310 issued and outstanding common shares;
- 16,326,474 issued and outstanding restricted voting common shares;
- 3,265,396 issued and outstanding stock options; and
- 7,034,964 issued and outstanding common share purchase warrants.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

TRANSACTIONS WITH RELATED PARTIES

The Company's related parties consist of key management personnel and companies owned directly or indirectly by key management personnel.

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers.

During the three and six months ended June 30, 2021 and 2020, remuneration of key management was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Salary and consulting fees	**121,778**	105,693	**221,511**	202,155
Share-based compensation	**2,872**	19,855	**19,486**	22,458
Total	**124,650**	125,548	**240,997**	224,613

As at June 30, 2021 and December 31, 2020, the following were due to related parties:

		December 31,
	June 30, 2021	2020
	$	$
Included in accounts payable and accrued liabilities	**18,021**	76,036
Included in convertible debt	**-**	199,026
Included in interest payable	**-**	109,072
Included in promissory notes	**60,000**	25,000
Total	**78,021**	409,134

Amounts due to related parties included in accounts payable and accrued liabilities are unsecured, non-interest-bearing and are without fixed terms of repayment.

FINANCIAL INSTRUMENTS

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for assets or liabilities that are not based on observable market data.

Avisa's convertible debt derivative, senior notes derivative and warrants liability that were converted upon the close of the Reverse Takeover were financial instruments classified as Level 3 in the fair value hierarchy. Their fair value was based on the Black-Scholes model. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

FINANCIAL RISK FACTORS

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk for Avisa is associated with its cash. Avisa is not exposed to significant credit risk as its cash is placed with a major United States financial institution.

(ii) Liquidity risk

Liquidity risk is the risk that Avisa will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

As at June 30, 2021 the Company had a cash balance of $97,601 (December 31, 2020 - cash balance of $438,840) available to apply against short-term business requirements and current liabilities of $2,717,524 (December 31, 2020 - $26,215,196). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of June 30, 2021. The Company expects that the GEM Fee payable will be repaid through future drawdowns pursuant to the GEM Agreement. The lease liability is payable in monthly instalments.

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Avisa is not exposed to significant foreign currency risk.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash and restricted cash is at nominal interest rates. As at June 30, 2021 and December 31, 2020, the interest rates on the promissory notes and government loans are fixed and the GEM Fee payable is non-interest bearing. Therefore, the Company does not consider interest rate risk to be significant.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. Avisa is not exposed to significant other price risk.

OTHER RISK FACTORS

(iv) COVID-19 Pandemic

Since March 31, 2020, the COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include in some instances the closing non-essential businesses, travel bans, self-imposed quarantine periods and physical distancing, continue to cause significant material disruptions to businesses globally resulting in an economic slowdown. Global equity markets remain volatility and unpredictable. The duration and overall lasting impact of the COVID-19 pandemic is currently unknown, as is the efficacy of government and central bank interventions. It is not possible to reliably estimate the length and severity what these developments will have on the financial results and condition of Avisa in future periods.

(v) Development Risk

Substantial corporate resources are being expended on the development of Avisa's technologies. The Avisa BreathTest product is continuously being upgraded and is not currently commercialized. There can be no guarantee that the Avisa BreathTest achieve the objectives which Avisa believes are necessary for it to result in a successful offering to the marketplace. There are significant risks, expenses, delays, and difficulties frequently encountered in establishing new technologies to industry, which is characterized by an increasing number of market entrants, intense competition, and high failure rate. Further, there is always the risk in product development that the software will fail to function as intended or that the market for such products will not develop as anticipated or when anticipated. There is often a lengthy time between the time of technology conceptualization to technology commercialization, and there can be no assurances that development of new technologies will be commercialized at all, on time or within budget. Failure to successfully commercialize the Avisa BreathTest would materially and adversely affect Avisa's financial condition and results of operations.

(vi) Competition

Competition in the pneumonia diagnostics industry occurs on many fronts, including developing and bringing new technologies to market before others, developing new technologies to improve existing offerings, developing new means in which to provide the same benefits as existing products at less cost, developing new products to provide benefits superior to those of existing offerings, and acquiring or licensing complementary or novel technologies from other companies or individuals. Avisa may be unable to contend successfully with current or future competitors which include major technology companies, many of which are large, well-established companies with access to financial, technical, and marketing resources significantly greater than Avisa and substantially greater experience in developing, licensing, and manufacturing products, conducting research and development activities, and obtaining regulatory approvals. Avisa's competitors may develop or acquire new or improved technologies that are similar to those offered by Avisa, while not necessarily being direct competitors currently.

(vii) Limited Protection of Patents and Proprietary Rights

Avisa's success will depend in part on its ability to protect its proprietary rights and technologies, including, but not limited to the Avisa BreathTest. Avisa will rely on a combination of contractual arrangements, licenses, patents, trade secrets, and know-how to protect its proprietary technology and rights and Avisa's failure to protect its intellectual property rights may result in the loss of valuable technologies and undermine its competitive position. However, not all these measures may apply or may afford only limited protection. In addition, the laws of some foreign countries do not protect proprietary technology rights to the same extent as do the laws of Canada and the United States. A failure of Avisa to adequately protect its proprietary rights may adversely affect the business of the Company. Furthermore, filing, prosecuting and defending patents on Avisa's intellectual property throughout the world could be prohibitively expensive. The laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States or federal and provincial laws in Canada. Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. Proceedings to enforce Avisa's patent rights in foreign jurisdictions could result in substantial cost and divert its efforts and attention from other aspects of its business. Avisa may have limited remedies if patents are infringed in certain jurisdictions or if it is compelled to grant a license to a third-party, which could materially diminish the value of those patents. This potentially could limit Avisa's total revenue opportunities.

Unpatented trade secrets, improvements, confidential know-how and continuing technological innovation may be important to Avisa's scientific and commercial success. Although Avisa will attempt to, and will continue to attempt to, protect proprietary information through reliance on trade secret laws and the use of confidentiality agreements with collaborators, contract manufacturers, licensees, clinical investigators, employees and consultants and other appropriate means, these measures may not effectively prevent disclosure of or access to proprietary information, and, in any event, others may develop independently, or obtain access to, the same or similar information.

Despite Avisa's efforts to protect its proprietary rights, there can be no assurance that the Avisa BreathTest will not be infringed upon, that Avisa would have adequate remedies for any such infringement or adequate funds to act against those infringing the technology, or that its trade secrets will not otherwise become known or independently developed by its competitors. There can also be no assurance that any patents now or hereafter issued to, licensed by, or applied for by Avisa will be upheld, if challenged, or that the protections afforded thereby will not be circumvented by others. There can be no assurance that Avisa's competitors will not independently develop technologies that are substantially equivalent or superior to the Avisa BreathTest.

(viii) Infringement of Intellectual Property Rights

While Avisa believes that its intellectual property does not infringe upon the proprietary rights of third parties, its commercial success depends, in part, upon Avisa not infringing intellectual property rights of others. Several of Avisa's competitors and other third parties have been issued or may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those utilized by Avisa. Some of these patents may grant very broad protection to the owners of the patents.

Avisa may become subject to claims by third parties that its technology infringes their intellectual property rights due to the growth of products in its target markets, the overlap in functionality of those products and the prevalence of products.

Litigation may be necessary to determine the scope, enforceability, and validity of third-party proprietary rights or to establish Avisa's proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater resources than Avisa and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period than Avisa.

Regardless of their merit, any such claims could be time consuming to evaluate and defend, result in costly litigation, divert management's attention and focus away from the business, subject Avisa to significant liabilities and equitable remedies, including injunctions, require Avisa to enter into costly royalty or licensing agreements and require the Issuer to modify or stop using infringing technology.

(ix) Sales and Distribution

Avisa does not currently have any proven market for sales or completed distribution agreements. The successful commercialization of its technologies will be reliant on Avisa's ability to identify, execute and maintain a successful mechanism to market.

(x) Additional Funding Requirements

Avisa will require additional financing to implement its business plan. Avisa may raise additional funds through gap financing, debt financing, and/or subsequent equity financing. Avisa may also borrow funds from a financial institution(s) using the assets of the Company as security for said loan(s). Avisa may also obtain additional financing through certain government subsidies or tax incentives available in certain geographic areas, if available, at Avisa's discretion. Failure to obtain such additional capital on terms acceptable to Avisa could restrict its ability to implement its growth plans. Further, a shortage of funds may prevent or delay Avisa from getting its products to the marketplace, achieving profitability, or enabling Avisa to pay distributions to its shareholders. There is no assurance that Avisa will have adequate capital to conduct its business or satisfy its financial obligations.

The ability of Avisa to arrange financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that Avisa will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to Avisa or at all. If additional financing is raised by the issuance of shares from the treasury of Avisa, control of the Company may change, and shareholders may suffer additional dilution. There can be no assurance that Avisa will generate cash flow from operations necessary to support the continuing operations of the Company.

(xi) Limited Operating History

Avisa has incurred losses since inception and is expected to continue to incur losses. As such, Avisa will be subject to all the business risks and uncertainties associated with any new business enterprise, including undercapitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenues. Avisa's ability to reach and then sustain profitability depends on several factors, including the growth rate of the developmental optics industry, the continued market acceptance of the Avisa BreathTest and the competitiveness of the Company. There is no assurance that Avisa will be successful in achieving a return on shareholders' investment and the likelihood of its success must be considered in light of its early stage of operations.

(xii) Lack of Operating Cash Flow

Avisa currently has no source of operating cash flow, which is expected to continue for the near future. Avisa's failure to achieve profitability and positive operating cash flows could have a material adverse effect on its financial condition and results of operations.

(xiii) Exposure to Foreign Currency Exchange Rates

Avisa's commercialization plans leverage suppliers and customers in foreign jurisdictions; as a result, a significant portion of its revenues, expenses, current assets and current liabilities may be preliminary denominated in foreign currencies, while its financial statements are expressed in a single currency. A decrease in the value of such foreign currencies relative to the reporting currency could result in losses in revenues from currency exchange rate fluctuations. To date, Avisa has not hedged against risks associated with foreign exchange rate exposure. Avisa cannot be sure that any hedging techniques it may implement in the future will be successful or that its business, financial condition, and results of operations will not be materially adversely affected by exchange rate fluctuations.

(xiv) Market for Securities and Volatility of Share Price

There can be no assurance that an active trading market in Avisa's securities will be established or sustained. The market price for Avisa's securities could be subject to wide fluctuations. Factors such as announcements of quarterly variations in operating results, as well as market conditions in the industry, may have a significant adverse impact on

the market price of the securities of Avisa. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of companies.

(xv) Dependence on Management and Key Personnel

Avisa's management will make all decisions with respect to Avisa's assets, including investment decisions and the day-to-day operations of the Company. As a result, the success of Avisa for the foreseeable future will depend largely upon the ability of its management team, employees and consultants. The loss of any key individual could have a material adverse effect on Avisa. If Avisa lost the services of one or more of its executive officers or key employees and consultants, it would need to devote substantial resources to finding replacements, and until replacements were found, the Company would be operating without the skills or leadership of such personnel, any of which could have a significant adverse effect on Avisa's business. Avisa currently does not carry "key-man" life insurance policies covering any of these officers or consultants.

The future success of Avisa depends in significant part on the contributions of its executive officers and scientific and technical personnel. The loss of the services of one or more key individuals may significantly delay or prevent achievement of scientific or business objectives. Competition for qualified and experienced personnel in the biomedical field is generally intense, and Avisa will rely heavily on its ability to attract and retain qualified personnel in order to successfully implement its scientific and business objectives. The failure to attract or retain key executives and personnel could impact Avisa's operations, including failure to achieve targets and advancement of the Avisa BreathTest.

As Avisa's development and commercialization plans and strategies develop, the Company expects that it will need to expand the size of its employee base for managerial, operational, sales, marketing, financial and other resources. Future growth would impose significant added responsibilities on members of management, including the need to identify, recruit, maintain, motivate and integrate additional employees. In addition, Avisa's management may have to divert a disproportionate amount of its attention away from the Company's day-to-day activities and devote a substantial amount of time to managing these growth activities. Avisa's future financial performance and its ability to commercialize its Avisa BreathTest and its ability to compete effectively will depend, in part, on the Company's ability to effectively manage any future growth.

(xvi) Uninsured Risks

Avisa may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, Avisa may incur a liability to third parties (in excess of any insurance coverage) arising from any damage or injury caused by the Company's operations.