

Profound Medical Corp.

Interim Condensed Consolidated Financial
Statements
(Unaudited)
June 30, 2016

Profound Medical Corp.

Interim Condensed Consolidated Balance Sheets (Unaudited)

	June 30, 2016 \$	December 31, 2015 \$
Assets		
Current assets		
Cash	2,972,142	10,522,520
Short-term investment	10,000,000	10,000,000
HST receivable and other assets	113,969	92,479
Investment tax credits receivable	296,100	173,000
Prepaid expenses and deposits	833,966	139,305
	<u>14,216,177</u>	<u>20,927,304</u>
Property and equipment (note 3)	455,937	229,112
Intangible assets	<u>108,426</u>	<u>32,500</u>
	<u>14,780,540</u>	<u>21,188,916</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,301,820	980,278
Long-term debt (note 6)	2,013,958	286,700
Provisions (note 4)	90,907	-
	<u>3,406,685</u>	<u>1,266,978</u>
Long-term debt (note 6)	4,091,528	5,560,674
Other liability (note 6)	<u>434,390</u>	<u>397,814</u>
	<u>7,932,603</u>	<u>7,225,466</u>
Shareholders' Equity		
Share capital	67,082,821	67,082,821
Contributed surplus	2,368,775	2,002,190
Foreign currency translation reserve	(5,154)	-
Deficit	<u>(62,598,505)</u>	<u>(55,121,561)</u>
	<u>6,847,937</u>	<u>13,963,450</u>
	<u>14,780,540</u>	<u>21,188,916</u>
Commitments and contingencies (note 15)		

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Profound Medical Corp.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

	Three months ended June 30, 2016 \$	Three months ended June 30, 2015 \$	Six months ended June 30, 2016 \$	Six months ended June 30, 2015 \$
Expenses				
Research and development (note 9)	2,247,697	1,105,381	4,723,694	1,940,582
Selling, general and administrative (note 10)	1,182,177	3,393,128	2,309,002	3,975,638
Total operating expenses	3,429,874	4,498,509	7,032,696	5,916,220
Finance costs - net				
Preferred share dividend expense (note 7)	-	194,256	-	481,354
Interest and accretion expense	254,145	4,764,823	538,106	5,082,292
Listing expense	-	2,058,234	-	2,058,234
Loss on recognition of convertible notes (note 5)	-	-	-	2,094,565
Change in fair value of convertible notes (note 5)	-	35,393	-	(334,680)
Fair value gain on convertible notes (note 5)	-	(1,759,885)	-	(1,759,885)
Interest income	(47,951)	(5,618)	(98,515)	(13,389)
Gain on extinguishment of long- term debt (note 6)	-	(63,568)	-	(63,568)
Change in fair value of derivatives (note 7)	-	(224,436)	-	(2,086,406)
Total finance costs	206,194	4,999,199	439,591	5,458,517
Loss before income taxes	3,636,068	9,497,708	7,472,287	11,374,737
Tax expense (note 11)	4,657	(798,991)	4,657	(726,071)
Net loss for the period	3,640,725	8,698,717	7,476,944	10,648,666
Item that may be reclassified to profit or loss				
Foreign currency translation adjustment	2,267	-	5,154	-
Net loss and comprehensive loss for the period	3,642,992	8,698,717	7,482,098	10,648,666
Basic and diluted weighted average shares outstanding (note 13)				
	39,473,327	12,935,263	39,473,327	7,551,015
Basic and diluted net loss per common share (note 13)				
	0.09	0.67	0.19	1.41

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Profound Medical Corp.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency) (Unaudited)

	Number of shares	Share capital \$	Contributed surplus \$	Deficit \$	Foreign currency translation reserve \$	Total \$
Balance - January 1, 2015	2,166,766	39,487	765,612	(38,745,820)	-	(37,940,721)
Issuance of common shares to Profound shareholders	2,200,009	3,300,000	-	-	-	3,300,000
Issuance of common shares in connection with private placement net of transaction costs (note 1)	16,005,885	21,010,588	-	-	-	21,010,588
Issuance of common shares on conversion of preferred shares (note 7)	16,309,894	38,669,083	-	-	-	38,669,083
Issuance of common shares on conversion of convertible notes (note 5)	1,042,333	1,563,500	-	-	-	1,563,500
Issuance of common shares in connection with the Knight loan (note 6)	1,717,450	2,483,810	-	-	-	2,483,810
Fair value of Profound compensation and share options	-	-	145,839	-	-	145,839
Fair value of compensation options	-	-	465,072	-	-	465,072
Share-based payments (note 8)	-	-	291,887	-	-	291,887
Net loss and comprehensive loss for the period	-	-	-	(10,648,666)	-	(10,648,666)
Balance - June 30, 2015	39,442,337	67,066,468	1,668,410	(49,394,486)	-	19,340,392
Balance - January 1, 2016	39,473,327	67,082,821	2,002,190	(55,121,561)	-	13,963,450
Net loss for the period	-	-	-	(7,476,944)	-	(7,476,944)
Foreign currency translation adjustment	-	-	-	-	(5,154)	(5,154)
Share-based payments	-	-	366,585	-	-	366,585
Balance - June 30, 2016	39,473,327	67,082,821	2,368,775	(62,598,505)	(5,154)	6,847,937

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Profound Medical Corp.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six months ended June 30, 2016 \$	Six months ended June 30, 2015 \$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(7,476,944)	(10,648,666)
Depreciation of property and equipment	63,904	50,682
Amortization of intangible assets	1,250	1,250
Preferred share dividend expense	-	481,354
Share-based compensation	366,585	291,887
Loss on recognition of convertible notes	-	2,094,565
Gain on extinguishment of long-term debt	-	(63,568)
Change in fair value of convertible notes	-	(334,680)
Change in fair value of derivatives	-	(2,086,406)
General and administrative expense	-	2,303,034
Listing expense	-	2,058,234
Gain on conversion of convertible notes	-	(1,759,885)
Interest and accretion expense	538,038	5,082,292
Net change in non-cash working capital balances		
Prepaid expenses and deposits	(694,661)	(10,074)
Accounts payable and accrued liabilities	301,773	(544,764)
Provisions	90,907	-
Taxes payable	-	(726,071)
Investment tax credits receivable	(123,100)	794,062
HST receivable and other assets	(21,490)	85,740
	<u>(6,953,738)</u>	<u>(2,931,014)</u>
Investing activities		
Purchase of intangible assets	(77,176)	-
Cash acquired from Profound	-	1,157,535
Purchase of property and equipment	(276,114)	(103,973)
	<u>(353,290)</u>	<u>1,053,562</u>
Financing activities		
Proceeds from convertible notes	-	1,500,000
Issuance of common shares	-	24,008,828
Proceeds from long-term debt	-	4,000,000
Payment of long-term debt	(243,350)	(28,900)
Transaction costs paid	-	(1,341,667)
Repayment of bank loan	-	(700,000)
Interest paid	-	(8,077)
	<u>(243,350)</u>	<u>27,430,184</u>
Increase (decrease) in cash during the period	(7,550,378)	25,552,732
Cash - Beginning of period	10,522,520	406,495
Cash - End of period	2,972,142	25,959,227
Supplemental information		
Transaction costs included in accounts payable and accrued liabilities	-	851,918
Property and equipment additions included in accounts payable and accrued liabilities	14,615	-

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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1 Description of business

Profound Medical Corp. (Profound) and its subsidiaries (together, the company) was incorporated under the Ontario Business Corporations Act on July 16, 2014 as Mira IV Acquisition Corp. (Mira IV) and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange (the Exchange).

On June 4, 2015, Profound closed its qualifying transaction (the Transaction) with Profound Medical Inc. (PMI), a medical device company commercializing a unique, MR-guided ablation procedure for prostate care, pursuant to which the shareholders of PMI completed a reverse asset acquisition of Profound. The company's registered address is 3080 Yonge Street, Suite 4040, Toronto, Ontario, M4N 3N1.

Prior to the completion of the Transaction, on April 30, 2015, PMI completed a brokered private placement of subscription receipts for gross proceeds of \$24,008,828 (net proceeds of \$21,010,588), representing 16,005,885 subscription receipts at a price of \$1.50 per subscription receipt. Each subscription receipt issued in the private placement was exchangeable for one common share in the capital of PMI on satisfaction of certain conditions related to the Transaction. In conjunction with the private placement, a total of 576,235 compensation options were granted to the agents, with each compensation option exercisable into one common share at a price of \$1.50 for a period of two years.

In connection with the Transaction, Profound changed its name to Profound Medical Corp. from Mira IV Acquisition Corp. and consolidated its common shares prior to completion of the Transaction on the basis of the one post-consolidation common share for every 13.6363 pre-consolidation common shares. Following these changes, PMI amalgamated with Mira IV Subco Inc., a wholly owned subsidiary of Profound, formed solely for the purposes of facilitating the Transaction. Pursuant to the amalgamation, the shareholders of PMI received one common share of Profound for each common share of PMI. As a result of the Transaction, PMI is now a wholly owned subsidiary of Profound.

On June 8, 2015, the shares of Profound commenced trading on the TSX Venture Exchange under the ticker symbol PRN.

2 Basis of preparation and summary of significant accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. These interim condensed consolidated financial statements should be read in conjunction with the company's annual financial statements for the year ended December 31, 2015, which were prepared in accordance with IFRS.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 16, 2016.

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The interim condensed consolidated financial statements were prepared on a going concern basis under the historical cost convention, except for derivatives and convertible notes, which are measured at fair value through profit or loss.

The accounting policies adopted are consistent with those of the previous financial year. Amendments to IFRS effective for the financial year ending December 31, 2016 did not have a material impact on the company. The impact of new standards, amendments to standards and interpretations that have been issued but are not effective for financial periods beginning on or after January 1, 2017 and have not been early adopted have been discussed in the company's annual financial statements for the year ended December 31, 2015.

3 Property and equipment

Property and equipment consists of the following:

	Furniture and fittings \$	Research equipment \$	Leasehold improvements \$	Computer equipment \$	Computer software \$	Total \$
As at January 1, 2016						
Cost	83,248	249,740	25,924	148,291	194,030	701,233
Accumulated depreciation	(35,316)	(167,053)	(20,529)	(89,009)	(160,214)	(472,121)
Net book value	47,932	82,687	5,395	59,282	33,816	229,112
Six months ended June 30, 2016						
Opening net book value	47,932	82,687	5,395	59,282	33,816	229,112
Additions	80,960	124,568	54,426	25,074	5,701	290,729
Depreciation	(8,261)	(19,378)	(5,395)	(14,623)	(16,247)	(63,904)
Closing net book value	120,631	187,877	54,426	69,733	23,270	455,937
As at June 30, 2016						
Cost	164,208	374,308	80,350	173,364	199,732	991,962
Accumulated depreciation	(43,577)	(186,431)	(25,924)	(103,631)	(176,462)	(536,025)
Net book value	120,631	187,877	54,426	69,733	23,270	455,937

Depreciation expense is included in general and administrative expenses.

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4 Provisions

A provision is recognized when the company has a legal or constructive obligation as result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by the company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The provision balance is comprised of an onerous contract, which covers the loss anticipated in relation to the company's leased premises, which expires on December 31, 2016 and is now vacant.

5 Convertible notes

On January 27, 2015, PMI closed a financing of secured convertible notes (the Notes) with the existing preferred shareholders in the principal amount of \$1,500,000, which were to mature on January 27, 2016. The Notes accrued interest at a rate of 12% per annum. All or any part of the Notes could have been converted at any time after February 20, 2015 at a conversion price per preferred share equal to the Series A2 preferred share conversion price at the option of the holder. In accordance with the original terms of the Notes, in the event that a qualifying financing occurs, all of the Notes would automatically convert into the class or series of preferred shares, common shares or units acquired by the new investors at a price per share or unit equal to 75% of the price paid. On April 20, 2015, the Notes were amended to eliminate the discount such that the Notes automatically convert at a price per common share or unit equal to 100% of the price paid by the new investors.

Pursuant to the terms of the Notes and in conjunction with the Transaction (note 1) on June 4, 2015, the principal and accrued interest of the Notes were converted into 1,042,333 common shares at a price of \$1.50 per common share and \$1,563,500 was transferred to share capital. A fair value gain on conversion of the Notes of \$1,759,885 was recognized in the interim condensed consolidated statements of loss and comprehensive loss for the six months ended June 30, 2015.

On initial recognition, the fair value of the Notes was \$3,594,565 and the difference between the fair value and the initial value of \$1,500,000, or \$2,094,565, was recognized in the interim condensed consolidated statements of loss and comprehensive loss for the six months ended June 30, 2015.

During the three and six months ended June 30, 2015, the company recognized a loss/gain on change in fair value on the notes of \$35,393 and \$334,680, respectively.

During the three and six months ended June 30, 2015, the company recognized \$32,432 and \$63,500 of interest expense on the Notes, respectively.

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6 Long-term debt

The Federal Economic Development Agency (FedDev) loan is unsecured, non-interest bearing, with total proceeds of \$867,000. Repayments of \$14,450 commenced on April 1, 2015 followed by 48 monthly instalments of \$7,225 from May 1, 2015 to April 1, 2019 and 11 monthly instalments of \$45,977 from May 1, 2019 to March 1, 2020. These repayment terms are the result of an amendment to the agreement dated June 2, 2015 and replace the previous repayment terms of 60 monthly installments of \$14,450. As at June 30, 2016, the principal balance outstanding on this loan is \$751,400 (December 31, 2015 - \$794,750).

During the three and six months ended June 30, 2016, the company recognized \$14,362 and \$28,901 of interest and accretion expense on this loan, respectively (three and six months ended June 30, 2015 - \$16,101 and \$32,591, respectively).

The Health Technology Exchange (HTX) loans are unsecured, bearing interest at 4.50% per annum, with remaining annual repayments on March 31, 2017 for \$500,000 and March 31, 2018 for \$1,094,698 representing the balance of the obligations under each of the loan agreements including accrued interest to March 31, 2018. As at June 30, 2016, the principal balance outstanding on this loan was \$1,300,000 (December 31, 2015 - \$1,500,000).

During the three and six months ended June 30, 2016, the company recognized \$(1,077) and \$37,338 of interest and accretion expense on these loans, respectively (three and six months ended June 30, 2015 - \$35,707 and \$70,555, respectively).

A reconciliation of the FedDev and HTX loans is as follows:

	June 30, 2016 \$	December 31, 2015 \$
Balance - Beginning of period	2,150,471	2,079,472
Gain on extinguishment of long-term debt	-	(63,568)
Repayment	(243,350)	(72,250)
Interest and accretion expense	66,239	206,817
	<hr/>	<hr/>
Balance - End of period	1,973,360	2,150,471
Less: Current portion	(586,700)	(286,700)
	<hr/>	<hr/>
Non-current portion	1,386,660	1,863,771

On April 30, 2015, PMI signed an agreement with Knight Therapeutics Inc. (Knight) to provide a secured loan of \$4,000,000 (the Knight Loan) for an initial period of four years with an interest rate of 15% per annum, with payments of interest and principal deferred until June 30, 2017. The company has the option to extend the loan for up to four successive additional 12-month periods subject to certain conditions. The Knight Loan was drawn on as part of the closing of the Transaction (note 1). Repayments commence on June 30, 2017 for a payment of \$1,427,258 followed by seven quarterly instalments of \$285,714 plus accrued interest from September 30, 2017 to March 31, 2019 and a final instalment of \$2,052,603 on June 3, 2019. As part of the agreement, Knight was

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also granted a royalty of 0.5% on net sales resulting from global sales of the company's product for the duration of the Knight Loan (the royalty). In addition, the company also entered into a distribution, licence and supply agreement with Knight pursuant to which Knight will act as the exclusive distributor of the company's product in Canada for an initial ten-year term, renewable for successive ten-year terms by either party. In connection with these arrangements, the company issued to Knight 4% of the common shares of the company (1,717,450 common shares) after giving effect to the Transaction (the Knight shares).

The company had recorded in share capital the fair value of the Knight shares issued concurrently with the Knight Loan and recorded a financial liability for the fair value of the royalty. The amount of \$2,303,034 in excess of proceeds received of \$4,000,000 was recorded as a selling, general and administrative expense and represents additional value provided to the company as a result of the Knight relationship.

A reconciliation of the Knight Loan balance including the allocation to the various components net of transaction costs allocated using the relative fair value method is as follows:

	June 30, 2016 \$	December 31, 2015 \$
Balance - Beginning of period	3,696,903	-
Cash proceeds on issuance of Knight Loan	-	4,000,000
Embedded derivatives asset	-	1,764
Fair value of Knight shares	-	(2,483,810)
Fair value of royalty	-	(359,016)
Transaction costs	-	(226,049)
Selling, general and administrative expense	-	2,303,034
Interest and accretion expense	435,223	460,980
	<hr/>	<hr/>
Balance - End of period	4,132,126	3,696,903
Less: Current portion	(1,427,258)	-
	<hr/>	<hr/>
Non-current portion	2,704,868	3,696,903

The royalty is initially recorded at fair value and subsequently carried at amortized cost using the effective interest rate method. The initial fair value of the royalty was determined using future revenue forecasts for the term of the loan and a discount rate of 18%. During the three and six months ended June 30, 2016, the company recognized \$18,690 and \$36,576, respectively (three and six months ended June 30, 2015 - \$5,302) accretion expense on this royalty and the liability as at June 30, 2016 is \$434,390 (December 31, 2015 - \$397,814).

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A summary of the long-term debt is as follows:

	June 30, 2016 \$	December 31, 2015 \$
FedDev and HTX loans	1,973,360	2,150,471
Knight loan	4,132,126	3,696,903
	<hr/>	<hr/>
Balance - End of period	6,105,486	5,847,374
Less: Current portion	(2,013,958)	(286,700)
	<hr/>	<hr/>
Non-current portion	4,091,528	5,560,674

7 Preferred shares

Pursuant to the terms of the preferred share agreement and in conjunction with the Transaction, on June 4, 2015, the preferred shares were converted into 16,309,894 common shares at a price of \$1.50 per common share and \$38,669,083 was transferred to share capital.

During the three and six months ended June 30, 2015, the company recognized a change in fair value on the derivatives of \$224,436 and \$2,806,406, respectively, dividend expense of \$194,256 and \$481,354, respectively and interest accretion expense of \$4,617,818 and \$4,846,840 respectively.

8 Share-based payments

Compensation expense related to share options for the three and six months ended June 30, 2016 was \$157,471 and \$366,585, respectively (three and six months ended June 30, 2015 - \$240,573 and \$291,887, respectively).

During the six months ended June 30, 2016, there were 30,000 share options granted and 310,890 share options were forfeited (1,465,364 share options granted and 146,667 Profound share options issued for the six months ended June 30, 2015).

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9 Research and development expenses

	Three months ended June 30, 2016 \$	Three months ended June 30, 2015 \$	Six months ended June 30, 2016 \$	Six months ended June 30, 2015 \$
Materials	630,427	676,456	1,648,881	1,152,386
Salaries and benefits	895,440	503,512	1,730,222	1,025,037
Share-based compensation	61,844	-	61,844	-
Consulting fees	257,498	32,884	418,134	100,898
Travel	40,977	49,759	138,937	66,596
Rent	119,650	27,618	169,754	60,497
Clinical trial costs	175,180	4,650	423,112	34,538
Contractors	35,001	-	87,937	1,749
Amortization of intangible assets	625	625	1,250	1,250
Other	99,155	26,314	166,723	51,811
Investment tax credits	(68,100)	(216,437)	(123,100)	(554,180)
	<u>2,247,697</u>	<u>1,105,381</u>	<u>4,723,694</u>	<u>1,940,582</u>

The company's claim for scientific research and experimental development deductions and related expenses for income tax purposes is based on management's interpretation of the applicable legislation in the Income Tax Act (Canada).

10 Selling, general and administrative expenses

	Three months ended June 30, 2016 \$	Three months ended June 30, 2015 \$	Six months ended June 30, 2016 \$	Six months ended June 30, 2015 \$
Marketing expense (note 6)	-	2,303,034	-	2,303,034
Salaries and benefits	434,690	470,204	763,063	676,286
Professional and consulting fees	333,188	232,898	705,067	386,437
Share-based compensation	95,627	240,573	304,741	291,887
Travel	64,161	63,152	148,796	141,314
Office and other	171,570	46,447	259,433	108,774
Depreciation of property and equipment	38,588	27,816	63,904	50,682
Rent	44,353	9,004	63,998	17,224
	<u>1,182,177</u>	<u>3,393,128</u>	<u>2,309,002</u>	<u>3,975,638</u>

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11 Income taxes

For the periods ended June 30, 2016 and June 30, 2015, income tax expense is recognized on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

If the holders of the preferred shares were paid, or deemed to have been paid, any dividends on such shares, the company would have become liable for the payment of taxes under Part VI.1 of the Income Tax Act (Canada). On conversion of the preferred shares, no dividends were paid or deemed paid and therefore the company reversed the taxes payable amount on the interim condensed consolidated balance sheets and recognized a Part VI.1 tax recovery for the three and six months ended June 30, 2015 of \$798,991 and \$726,071, respectively.

12 Fair value of financial instruments

As at June 30, 2016, the fair value of cash, short-term investment, accounts payable and accrued liabilities and other liability approximate their carrying values, due to their relatively short periods to maturity.

The fair value of the long-term debt is \$6,105,486 and has been determined based on discounted cash flows and other assumptions which are within Level 3 of the fair value hierarchy

13 Loss per share

The following table shows the calculation of basic and diluted loss per share:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net loss for the period	\$3,640,725	\$8,698,717	\$7,476,944	\$10,648,666
Denominator for basic and diluted loss per share	39,473,327	12,935,263	39,473,327	7,551,015
Basic and diluted loss per share	\$0.09	\$0.67	\$0.19	\$1.41

For the periods noted above, the computation of diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of the share options, compensation options and preferred shares.

Of the 3,126,393 share options and 649,568 compensation options not included in the calculation of diluted loss per share for the period ended June 30, 2016, 2,016,938 were exercisable.

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14 Related party transactions

Key management includes the company's directors and senior management team. The remuneration of directors and the senior management team were as follows:

	Three months ended June 30, 2016 \$	Three months ended June 30, 2015 \$	Six months ended June 30, 2016 \$	Six months ended June 30, 2015 \$
Salaries and employee benefits	240,323	232,399	484,820	458,401
Directors' fees	41,375	11,311	82,750	22,662
Share-based compensation	141,622	215,239	334,209	253,369
	<u>423,320</u>	<u>458,949</u>	<u>901,779</u>	<u>734,432</u>

Executive employment agreements allow for additional payments in the event of a liquidity event or if the executive is terminated without cause.

15 Commitments and contingencies

The company has commitments under operating leases for the rental of office space. On March 28, 2016 the company signed a lease for new office space and took possession of this office space during the third quarter. The future minimum obligation under these leases are as follows:

	\$
No later than 1 year	293,857
Later than 1 year and no later than 5 years	1,970,306
Later than 5 years	<u>3,033,607</u>
	<u>5,297,770</u>

During the six-month period, the company signed an agreement that guarantees payment related to revenue sharing of US\$3,500,000 over the next five years. The company also has a commitment of \$368,468 related to leasehold improvements at the new office facility.

All directors and officers of the company are indemnified by the company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the company, subject to certain restrictions. The company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification is not explicitly defined, but is limited to events for the period during which the indemnified party served as a director or officer of the company. The maximum amount of any potential future payment cannot be reasonably estimated but could have a material adverse effect on the company.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

June 30, 2016

16 Segment reporting

The chief executive officer is the company's chief operating decision maker (CODM). Management has determined there is one operating segment based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.