

# **Profound Medical Corp.**

Interim Condensed Consolidated Financial  
Statements  
(Unaudited)  
**September 30, 2016**

# Profound Medical Corp.

## Interim Condensed Consolidated Balance Sheets (Unaudited)

	September 30, 2016 \$	December 31, 2015 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	9,567,378	10,522,520
Short-term investment	-	10,000,000
HST receivable and other assets	156,259	92,479
Investment tax credits receivable	198,000	173,000
Prepaid expenses and deposits (note 15)	826,505	139,305
	<u>10,748,142</u>	<u>20,927,304</u>
<b>Property and equipment</b> (note 3)	1,057,989	229,112
<b>Intangible assets</b>	245,165	32,500
	<u>12,051,296</u>	<u>21,188,916</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,159,774	980,278
Long-term debt (note 6)	2,450,906	286,700
Provisions (note 4)	40,594	-
	<u>4,651,274</u>	<u>1,266,978</u>
<b>Long-term debt</b> (note 6)	3,915,489	5,560,674
<b>Provisions</b> (note 4)	111,100	-
<b>Other liability</b> (note 6)	453,920	397,814
	<u>9,131,783</u>	<u>7,225,466</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b>	67,089,681	67,082,821
<b>Contributed surplus</b>	2,500,040	2,002,190
<b>Foreign currency translation reserve</b>	(10,495)	-
<b>Deficit</b>	<u>(66,659,713)</u>	<u>(55,121,561)</u>
	<u>2,919,513</u>	<u>13,963,450</u>
	<u>12,051,296</u>	<u>21,188,916</u>
<b>Commitments and contingencies</b> (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 September 30, 2016 \$	Three months ended September 30, 2015 \$	Nine months ended September 30, 2016 \$	Nine months ended September 30, 2015 \$
<b>Expenses</b>				
Research and development (note 9)	2,506,112	1,657,700	7,229,806	3,598,282
Selling, general and administrative (note 10)	1,273,521	1,099,798	3,582,523	5,075,436
<b>Total operating expenses</b>	<b>3,779,633</b>	<b>2,757,498</b>	<b>10,812,329</b>	<b>8,673,718</b>
<b>Finance costs - net</b>				
Preferred share dividend expense (note 7)	-	-	-	481,354
Interest and accretion expense	302,122	266,603	840,228	5,348,895
Interest income	(25,270)	(66,922)	(123,785)	(80,311)
Listing expense	-	-	-	2,058,234
Loss on recognition of convertible notes (note 5)	-	-	-	2,094,565
Change in fair value of convertible notes (note 5)	-	-	-	(334,680)
Gain on conversion of convertible notes (note 5)	-	-	-	(1,759,885)
Gain on extinguishment of long- term debt (note 6)	-	-	-	(63,568)
Change in fair value of derivatives (note 7)	-	-	-	(2,086,406)
<b>Total finance costs</b>	<b>276,852</b>	<b>199,681</b>	<b>716,443</b>	<b>5,658,198</b>
<b>Loss before income taxes</b>	<b>4,056,485</b>	<b>2,957,179</b>	<b>11,528,772</b>	<b>14,331,916</b>
<b>Tax expense</b> (note 11)	<b>4,723</b>	<b>-</b>	<b>9,380</b>	<b>(726,071)</b>
<b>Net loss for the period</b>	<b>4,061,208</b>	<b>2,957,179</b>	<b>11,538,152</b>	<b>13,605,845</b>
<b>Item that may be reclassified to profit or loss</b>				
Foreign currency translation adjustment	5,341	-	10,495	-
<b>Net loss and comprehensive loss for the period</b>	<b>4,066,549</b>	<b>2,957,179</b>	<b>11,548,647</b>	<b>13,605,845</b>
<b>Basic and diluted weighted average shares outstanding</b> (note 13)	<b>39,482,212</b>	<b>39,458,683</b>	<b>39,476,278</b>	<b>18,343,256</b>
<b>Basic and diluted net loss per common share</b> (note 13)	<b>0.10</b>	<b>0.08</b>	<b>0.29</b>	<b>0.74</b>

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 \$
<b>Balance - January 1, 2015</b>	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	21,000,437	-	-	-	21,000,437
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)	-	-	566,872	-	-	566,872
Exercise of stock options	30,990	26,504	(19,066)	-	-	7,438
Net loss and comprehensive loss for the period	-	-	-	(13,605,845)	-	(13,605,845)
<b>Balance - September 30, 2015</b>	<b>39,473,327</b>	<b>67,082,821</b>	<b>1,924,329</b>	<b>(52,351,665)</b>	<b>-</b>	<b>16,655,485</b>
<b>Balance - January 1, 2016</b>	<b>39,473,327</b>	<b>67,082,821</b>	<b>2,002,190</b>	<b>(55,121,561)</b>	<b>-</b>	<b>13,963,450</b>
Foreign currency translation adjustment	-	-	-	-	(10,495)	(10,495)
Share-based payments (note 8)	-	-	501,035	-	-	501,035
Exercise of stock options	12,250	6,860	(3,185)	-	-	3,675
Net loss for the period	-	-	-	(11,538,152)	-	(11,538,152)
<b>Balance - September 30, 2016</b>	<b>39,485,577</b>	<b>67,089,681</b>	<b>2,500,040</b>	<b>(66,659,713)</b>	<b>(10,495)</b>	<b>2,919,513</b>

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)

	Nine months ended September 30, 2016 \$	Nine months ended September 30, 2015 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	(11,538,152)	(13,605,845)
Depreciation of property and equipment	113,336	85,714
Amortization of intangible assets	7,889	1,875
Preferred share dividend expense	-	481,354
Share-based compensation	501,035	566,872
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 expenses	-	2,303,034
Listing expense	-	2,058,234
Gain on conversion of convertible notes	-	(1,759,885)
Interest and accretion expense	840,152	5,348,895
Net change in non-cash working capital balances		
Prepaid expenses	(687,200)	(33,565)
Accounts payable and accrued liabilities	1,088,126	(575,631)
Provisions	40,594	-
Taxes payable	-	(726,071)
Investment tax credits receivable	(25,000)	773,105
HST receivable and other assets	(63,780)	246,316
	<u>(9,723,000)</u>	<u>(5,225,687)</u>
<b>Investing activities</b>		
Cash acquired from Profound	-	1,157,535
Sale (purchase) of short-term investment	10,000,000	(10,000,000)
Purchase of intangible assets	(139,679)	-
Purchase of property and equipment	(831,113)	(158,774)
	<u>9,029,208</u>	<u>(9,001,239)</u>
<b>Financing activities</b>		
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	(265,025)	(50,575)
Transaction costs paid	-	(1,657,860)
Repayment of bank loan	-	(700,000)
Proceeds from share option exercise	3,675	7,438
Interest paid	-	(8,321)
	<u>(261,350)</u>	<u>27,099,510</u>
<b>Increase (decrease) in cash during the period</b>	<b>(955,142)</b>	<b>12,872,584</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>10,522,520</b>	<b>406,495</b>
<b>Cash and cash equivalents - End of period</b>	<b><u>9,567,378</u></b>	<b><u>13,279,079</u></b>
<b>Supplemental information</b>		
Transaction costs included in accounts payable and accrued liabilities	-	545,876
Intangible asset additions included in accounts payable and accrued liabilities	80,875	-
Property and equipment additions included in provisions	111,100	-

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

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## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

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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 2400 Skymark Avenue, Unit 6, Mississauga, Ontario, L4W 5K5.

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 \$21,000,437), 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 consolidated 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 November 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 consist 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
Nine months ended September 30, 2016						
Opening net book value	47,932	82,687	5,395	59,282	33,816	229,112
Additions	150,868	150,682	601,350	33,612	5,701	942,213
Depreciation	(17,091)	(36,907)	(14,267)	(24,143)	(20,928)	(113,336)
Closing net book value	181,709	196,462	592,478	68,751	18,589	1,057,989
As at September 30, 2016						
Cost	234,116	400,422	627,274	181,903	199,731	1,643,446
Accumulated depreciation	(52,407)	(203,960)	(34,796)	(113,152)	(181,142)	(585,457)
Net book value	181,709	196,462	592,748	68,751	18,589	1,057,989

Depreciation expense is included in either research and development expense or selling, general and administrative expense.

### 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

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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 the following:

- an onerous contract of \$40,594, which covers the loss anticipated in relation to the company's vacated leased premises, which expires on December 31, 2016; and
- an asset retirement obligation of \$111,100 related to the company's leasehold improvements.

### 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 nine months ended September 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 nine months ended September 30, 2015.

During the nine months ended September 30, 2015, the company recognized a change in fair value on the Notes of \$334,680.

During the nine months ended September 30, 2015, the company recognized \$63,500 of interest expense on the Notes.

### 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,



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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 payments of \$14,450. As at September 30, 2016, the principal balance outstanding on this loan is \$729,725 (December 31, 2015 - \$794,750).

During the three and nine months ended September 30, 2016, the company recognized \$14,180 and \$43,081 of interest and accretion expense on this loan, respectively (three and nine months ended September 30, 2015 - \$14,881 and \$47,472, respectively).

The Health Technology Exchange (HTX) loans with proceeds of \$1,500,000 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 September 30, 2016, the principal balance outstanding on this loan was \$1,300,000 (December 31, 2015 - \$1,500,000).

During the three and nine months ended September 30, 2016, the company recognized \$34,429 and \$71,767 of interest and accretion expense on these loans, respectively (three and nine months ended September 30, 2015 - \$36,588 and \$107,143, respectively).

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

	September 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	(265,025)	(72,250)
Interest and accretion expense	114,848	206,817
	<hr/>	<hr/>
Balance - End of period	2,000,294	2,150,471
Less: Current portion	(586,700)	(286,700)
	<hr/>	<hr/>
Non-current portion	1,413,594	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 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

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with these arrangements, the company issued to Knight 4% of the common shares of the company (1,717,450 common shares or \$2,483,810) 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:

	September 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	669,198	460,980
	<hr/>	<hr/>
Balance - End of period	4,366,101	3,696,903
Less: Current portion	(1,864,206)	-
	<hr/>	<hr/>
Non-current portion	2,501,895	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 nine months ended September 30, 2016, the company recognized \$19,530 and \$56,106, respectively (three and nine months ended September 30, 2015 - \$16,380 and \$21,682) accretion expense, respectively on this royalty and the liability as at September 30, 2016 is \$453,920 (December 31, 2015 - \$397,814).

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

	September 30, 2016 \$	December 31, 2015 \$
FedDev and HTX loans	2,000,294	2,150,471
Knight loan	4,366,101	3,696,903
	<hr/>	<hr/>
Balance - End of period	6,366,395	5,847,374
Less: Current portion	(2,450,906)	(286,700)
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Non-current portion	3,915,489	5,560,674

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### 7 Preferred shares

Pursuant to the terms of the preferred share agreement and in conjunction with the Transaction (note 1), 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 nine months ended September 30, 2015, the company recognized a change in fair value on the derivatives of \$2,086,406, dividend expense of \$481,354 and interest accretion expense of \$4,846,840.

### 8 Share-based payments

Compensation expense related to share options for the three and nine months ended September 30, 2016 was \$134,450 and \$501,035, respectively (three and nine months ended September 30, 2015 - \$274,985 and \$566,872, respectively).

During the nine months ended September 30, 2016, there were 1,096,555 share options granted, 355,890 share options were forfeited, and 12,250 share option exercised (2,304,364 share options granted, 146,667 Profound share options issued, and 30,990 share option exercised for the nine months ended September 30, 2015).

During the nine months ended September 30, 2016, 73,333 compensation options expired.

### 9 Research and development expenses

	Three months ended September 30, 2016 \$	Three months ended September 30, 2015 \$	Nine months ended September 30, 2016 \$	Nine months ended September 30, 2015 \$
Materials	731,291	893,862	2,380,172	2,046,248
Salaries and benefits	949,125	571,384	2,679,347	1,596,421
Share-based compensation	21,740	-	83,584	-
Consulting fees	453,126	20,924	871,260	121,822
Travel	42,740	28,991	181,677	95,587
Rent	85,405	35,618	255,159	96,115
Other	136,484	35,155	303,207	86,966
Clinical trial costs	157,629	85,918	580,741	120,456
Contractors	4,824	6,180	92,761	7,929
Amortization of intangible assets	1,627	625	2,877	1,875
Investment tax credits	(77,879)	(20,957)	(200,979)	(575,137)
	<u>2,506,112</u>	<u>1,657,700</u>	<u>7,229,806</u>	<u>3,598,282</u>

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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 September 30, 2016 \$	Three months ended September 30, 2015 \$	Nine months ended September 30, 2016 \$	Nine months ended September 30, 2015 \$
Marketing expense (note 6)	-	-	-	2,303,034
Salaries and benefits	491,740	273,340	1,254,803	949,626
Professional and consulting fees	333,317	354,046	1,038,384	740,483
Share-based compensation	112,710	274,985	417,451	566,872
Travel	73,809	63,263	222,605	204,577
Rent	60,454	5,669	124,452	22,893
Office and other	147,047	93,463	406,480	202,237
Depreciation of property and equipment	49,432	35,032	113,336	85,714
Amortization of intangible assets	5,012	-	5,012	-
	<u>1,273,521</u>	<u>1,099,798</u>	<u>3,582,523</u>	<u>5,075,436</u>

### 11 Income taxes

For the periods ended September 30, 2016 and September 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.

During the three and nine months ended September 30, 2016, the company recorded an income tax expense of \$4,723 and \$9,380, respectively, primarily related to taxes in certain foreign jurisdictions.

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 nine months ended September 30, 2015 of \$726,071.

### 12 Fair value of financial instruments

As at September 30, 2016, the fair value of cash, accounts payable and accrued liabilities and other liability approximates their carrying values.

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The carrying value of the long-term debt approximates its fair value 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 September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net loss for the period	\$4,061,208	\$2,957,179	\$11,538,152	\$13,605,845
Basic and diluted weighted average number of shares outstanding	39,482,212	39,458,683	39,476,278	18,343,256
Basic and diluted loss per share	\$0.10	\$0.08	\$0.29	\$0.74

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 and compensation options.

Of the 4,135,698 share options and 576,235 compensation options not included in the calculation of diluted loss per share for the period ended September 30, 2016, 2,177,577 were exercisable.

### 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 September 30, 2016 \$	Three months ended September 30, 2015 \$	Nine months ended September 30, 2016 \$	Nine months ended September 30, 2015 \$
Salaries and employee benefits	284,068	518,949	768,888	977,350
Directors' fees	(47,713)	25,001	35,037	47,663
Share-based compensation	126,007	266,920	460,216	520,289
	<u>362,362</u>	<u>810,870</u>	<u>1,264,141</u>	<u>1,545,302</u>

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

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### 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 effective July 1, 2016. Included in prepaid expenses and deposits is an amount of \$567,500 related to this lease. The future minimum obligation under these leases are as follows:

	\$
No later than 1 year	391,809
Later than 1 year and no later than 5 years	2,013,622
Later than 5 years	<u>2,892,339</u>
	<u>5,297,770</u>

In 2016, the company signed an agreement that guarantees payment related to revenue sharing of US\$3,500,000 over the next five years.

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.

The company has also indemnified the underwriters in relation to the offering disclosed in note 17 and their respective affiliates and directors, officers, employees, shareholders, partners, advisers and agents and each other person, if any, controlling any of the underwriters or their affiliates against certain liabilities.

### 16 Segment reporting

The chief executive officer and the chief operating officer are the company's chief operating decision makers (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.

### 17 Subsequent event

On November 14, 2016, the company closed a bought deal prospectus offering (the offering), resulting in the issuance of 15,820,000 shares for gross proceeds of \$17,402,000.