Profound Medical Corp.

Consolidated Financial Statements
December 31, 2017 and 2016

March 23, 2018

Independent Auditor's Report

To the Shareholders of
Profound Medical Corp.

We have audited the accompanying consolidated financial statements of Profound Medical Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Profound Medical Corp. and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Profound Medical Corp.

Consolidated Balance Sheets

As at December 31, 2017 and 2016

	2017 $	2016 $
Assets		
Current assets		
Cash	11,103,223	20,833,061
Trade and other receivables (note 5)	4,251,658	266,336
Investment tax credits receivable	240,000	264,000
Inventory (note 6)	1,431,157	416,823
Prepaid expenses and deposits (note 22)	576,028	696,909
	17,602,066	22,477,129
Property and equipment (notes 4 and 7)	1,726,150	953,029
Intangible assets (notes 4 and 8)	5,141,998	262,685
Goodwill (notes 4 and 8)	3,409,165	-
	27,879,379	23,692,843
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	5,081,704	1,771,427
Customer deposits	-	259,293
Deferred revenue	241,316	-
Long-term debt (note 10)	4,701,214	2,877,050
Provisions (note 9)	93,222	-
Other liabilities (notes 4, 10 and 11)	534,958	39,357
Income taxes payable	72,779	-
	10,725,193	4,947,127
Long-term debt (note 10)	443,875	3,760,826
Provisions (note 9)	988,239	39,619
Other liabilities (notes 5, 10 and 11)	1,580,933	109,044
	13,738,240	8,856,616
Shareholders' Equity		
Share capital (notes 4 and 12)	98,365,770	83,272,678
Contributed surplus	6,103,970	3,000,563
Accumulated other comprehensive income (loss)	(57,929)	11,316
Deficit	(90,270,672)	(71,448,330)
	14,141,139	14,836,227
	27,879,379	23,692,843

Commitments and contingencies (note 22)

Subsequent event (note 25)

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

Profound Medical Corp.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2017 and 2016

	2017 $	2016 $
Revenue		
Products	4,663,986	-
Services	240,564	-
	4,904,550	-
Cost of sales	3,032,208	-
Gross profit	1,872,342	-
Expenses		
Research and development (note 14)	9,638,190	9,988,693
General and administrative (note 15)	5,935,215	4,369,288
Selling and distribution (note 16)	3,925,804	1,282,433
	19,499,209	15,640,414
Finance costs (note 17)	1,249,084	829,899
Finance income	(127,732)	(157,598)
Net finance costs	1,121,352	672,301
Loss before income taxes	18,748,219	16,312,715
Income taxes (note 18)	74,123	14,054
Net loss for the year	18,822,342	16,326,769
Other comprehensive loss (income)		
Item that may be reclassified to profit or loss		
Foreign currency translation adjustment	(69,245)	11,316
Comprehensive loss for the year	18,753,097	16,338,085
Basic and diluted weighted average shares outstanding (note 19)	61,404,141	41,510,145
Basic and diluted loss per common share (note 19)	0.31	0.39

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

Profound Medical Corp.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2017 and 2016

	Number of shares	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total $
Balance - January 1, 2016	39,473,327	67,082,821	2,002,190	-	(55,121,561)	13,963,450
Net loss for the year	-	-	-	-	(16,326,769)	(16,326,769)
Foreign currency translation adjustment	-	-	-	11,316	-	11,316
Exercise of share options	12,250	6,860	(3,185)	-	-	3,675
Share-based compensation (note 13)	-	-	1,001,558	-	-	1,001,558
Issuance of common shares on bought deal financing (note 12)	15,820,000	16,182,997	-	-	-	16,182,997
Balance - December 31, 2016	55,305,577	83,272,678	3,000,563	11,316	(71,448,330)	14,836,227
Net loss for the year	-	-	-	-	(18,822,342)	(18,822,342)
Foreign currency translation adjustment	-	-	-	(69,245)	-	(69,245)
Exercise of share options	411,800	271,471	(171,170)	-	-	100,301
Share-based compensation (note 13)	-	-	1,338,330	-	-	1,338,330
Issuance of common shares on acquisition (note 4)	7,400,000	7,844,000	-	-	-	7,844,000
Issuance of units on bought deal financing (note 12)	10,000,000	6,977,621	1,936,247	-	-	8,913,868
Balance - December 31, 2017	73,117,377	98,365,770	6,103,970	(57,929)	(90,270,672)	14,141,139

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

Profound Medical Corp.

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Net loss for the year	(18,822,342)	(16,326,769)
Depreciation of property and equipment	371,320	167,335
Amortization of intangible assets	500,518	19,673
Loss on disposal of property and equipment	-	10,248
Share-based compensation	1,338,330	1,001,558
Interest and accretion expense (note 17)	1,347,825	829,899
Change in fair value of contingent consideration	82,578	-
Transaction costs related to business acquisition (note 4)	716,767	-
Net change in non-cash working capital balances		
Investment tax credits receivable	24,000	(91,000)
Trade and other receivables	(3,985,322)	(173,857)
Prepaid expenses and deposits	120,881	(557,604)
Inventory	(1,014,334)	(416,823)
Accounts payable and accrued liabilities	3,368,675	775,781
Provisions	1,041,842	-
Customer deposits	(259,293)	259,293
Deferred revenue	241,316	-
Income taxes payable	72,779	-
	(14,854,460)	(14,502,266)
Investing activities		
Cash acquired in business acquisition (note 4)	183,988	-
Transaction costs related to business acquisition (note 4)	(716,767)	-
Sale of short-term investment	-	10,000,000
Purchase of intangible assets	(34,080)	(223,174)
Purchase of property and equipment	(430,569)	(863,991)
	(997,428)	8,912,835
Financing activities		
Issuance of common shares	10,000,000	17,402,000
Transaction costs paid	(1,086,132)	(1,219,003)
Payment of long-term debt and interest	(2,877,050)	(286,700)
Payment of other liabilities	(15,069)	-
Proceeds from share options exercised	100,301	3,675
	6,122,050	15,899,972
Increase (decrease) in cash during the year	(9,729,838)	10,310,541
Cash - Beginning of year	20,833,061	10,522,520
Cash - End of year	11,103,223	20,833,061
Supplemental information		
Intangible asset (recoverable) additions included in accounts payable and accrued liabilities	(26,684)	26,684
Property and equipment additions included in provisions	-	37,509

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

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. The Company is a biotechnology company developing a treatment to ablate the prostate gland in prostate cancer patients, treatment of uterine fibroids and palliative pain treatment of bone metastases.

The Company's registered address is 2400 Skymark Avenue, Unit 6, Mississauga, Ontario, L4W 5K5.

2 Summary of significant accounting policies and basis of preparation

Basis of preparation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). The Board of Directors approved these consolidated financial statements on March 23, 2018. These consolidated financial statements comply with IFRS.

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Consolidation

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The wholly owned subsidiaries of Profound are consolidated from the date control is obtained. All intercompany transactions, balances, income and expenses on transactions with the subsidiaries are fully eliminated.

Business combinations

The acquisition method of accounting is used to account for business combinations. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are recognized in the consolidated statements of loss and comprehensive loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are initially recognized at their fair value. Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. When the consideration transferred by the

Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination. Changes in the acquisition date fair values of the identifiable assets, liabilities and contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Other than measurement period adjustments, contingent consideration that is classified as a financial liability is remeasured at subsequent reporting dates, with the corresponding gain or loss recognized in the consolidated statements of loss and comprehensive loss.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the chief executive officer.

Foreign currency translation

The Company has a functional currency of Canadian dollars and the functional currency of each subsidiary is determined based on facts and circumstances relevant for each subsidiary. Where the Company's presentation currency of Canadian dollars differs from the functional currency of a subsidiary, the assets and liabilities of the subsidiary are translated from the functional currency into the presentation currency at the exchange rates as at the reporting date. The income and expenses of the subsidiaries are translated at rates approximating the exchange rates at the dates of the transactions. Exchange differences arising on the translation of the financial statements of the Company's subsidiaries are recognized in other comprehensive loss.

Foreign currency transactions are translated into the functional currency of the Company or its subsidiaries, using the exchange rates prevailing at the dates of these transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statements of loss and comprehensive loss, within finance costs.

Investment tax credits

The benefits of refundable investment tax credits (ITCs) for scientific research and experimental development (SR&ED) expenditures are recognized in the year the qualifying expenditure is made providing there is reasonable assurance of recoverability. The refundable ITCs recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities. The refundable ITCs reduce the research and development expenses to which they relate.

Financial instruments

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

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable and unconditional right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term, or if designated so on initial recognition.

  Financial instruments in this category are recognized initially and subsequently are measured at fair value. Transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of loss and comprehensive loss in the year in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the year-end dates, which is classified as non-current.

- Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

- Other financial liabilities at amortized cost: Financial liabilities at amortized cost are initially recognized at the amount required to be paid less, when material, a discount to reduce the liability to fair value. Subsequently, the liability is measured at amortized cost using the effective interest method.

- Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset measured at fair value through profit or loss) is impaired. For financial assets carried at amortized cost, impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Financial liabilities and equity instruments

- Classification as debt or equity

  Instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

- Knight loan

  The Knight loan contains a financial liability in accordance with the terms of the contractual arrangements. At the date of issue, the host financial liability is recorded at fair value. The financial liability is measured on an amortized cost basis using the effective interest method over the expected life and is subsequently remeasured at fair value through profit or loss.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the first-in, first-out (FIFO) method for finished goods and weighted average cost for raw materials.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of loss and comprehensive loss during the year in which they are incurred.

The major categories of property and equipment are depreciated on a straight-line basis as follows:

Furniture and fittings	20% per year
Research and manufacturing equipment	30% per year
Computer equipment	45% per year
Computer software	100% per year
Leasehold improvements	over the term of the lease

Residual values, methods of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Goodwill

Goodwill represents the excess fair value of the consideration transferred over the fair value of the underlying net assets in a business combination and is measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment on an annual basis or more frequently if there are indications the goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash generating units (CGUs) or group of CGUs that are expected to benefit from the synergies of the acquisition. If the recoverable amount of the CGU or group of CGUs is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to other assets of the CGU or group of CGUs.

Identifiable intangible assets

The Company's intangible assets are stated at cost, less accumulated amortization and are amortized on a straight-line basis in the consolidated statements of loss and comprehensive loss over their estimated useful lives.

The major categories of intangible assets are amortized as follows:

Exclusive licence agreement	20 years
Software	5 years
Brand	5 years
Proprietary technology	5 years

Impairment of non-financial assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows CGUs. The recoverable amount is the higher of an asset's fair value, less costs of disposal and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized as the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

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.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties. The specific recognition criteria described below must also be met before revenue is recognized.

Product sales

- Product sales to customers

  Revenue from the sale of medical devices and consumables is recognized when the significant risks and rewards of ownership of the products have passed or transferred to the customer, collection of the related receivable is probable, the sales price is fixed or determinable and customer acceptance has occurred.

- Product sales under strategic partnership agreements

  Revenue is recognized on the sale of medical devices or consumable products as per the terms of the respective contracts, which is generally at the time the Company has transferred the risks of ownership to its partners, who maintain the business relationship with the end customer. Under the terms of the Company’s partnership agreements, the Company retains a percentage of all amounts earned with the remaining percentage due to the partner. Accordingly, associated product sales are recognized net of the amounts due to the partner.

Multiple element arrangements

The Company may enter into arrangements in which it commits to provide products and services to its customers at different points in time. Revenue recognition for these arrangements is determined based on evaluation of the individual elements of the arrangements. If the element delivered has stand-alone value to the customer and the fair value associated with the undelivered element can be measured reliably, the amount recognized as revenue for each element is the fair value of the element in relation to the fair value of the arrangement as a whole. Otherwise, the arrangement is treated as one unit of account and revenue is deferred and recognized over the remaining term of the arrangements, commencing when all elements are delivered.

Service revenue

Service revenue related to installation and training is recognized once the services are performed and customer acceptance is received. Service revenue related to extended warranty service is deferred and recognized on a straight-line basis over the extended warranty period covered by the respective arrangement.

Cost of sales

Cost of sales primarily includes the cost of finished goods, inventory provisions, royalties, warranty expense, freight and direct overhead expenses necessary to acquire the finished goods.

Income taxes

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for the differences between the tax basis and carrying amounts of assets and liabilities, for operating losses and for tax credit carry-forwards. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which temporary differences can be utilized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws.

Share-based compensation

The Company grants share options periodically to certain employees, directors, officers and advisers.

Options currently outstanding vest over four years and have a contractual life of ten years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest.

Leases

Leases are classified as finance leases when the lease arrangement transfers substantially all of the risks and rewards related to the ownership of the leased asset. All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Research and development costs

Research costs are charged to expense as incurred. Development costs are capitalized and amortized when the criteria for capitalization are met, otherwise they are expensed as incurred. No development costs have been capitalized to date.

Clinical trial expenses result from obligations under contracts with vendors, consultants and clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations, which vary from contract to contract and may result in payment flows that do not match the periods over which materials or services are provided to the Company. The appropriate level of clinical trial expenses is reflected in the Company's consolidated financial statements by matching period expenses with period services and efforts expended. These expenses are recorded according to the progress of the clinical trial as measured by patient progression and the timing of various aspects of the clinical trial. Clinical trial accrual estimates are determined through discussions with internal clinical personnel and outside service providers as to the progress or state of completion of clinical trials, or the services completed. Service provider status is then compared to the contractually obligated fees to be paid for such services. During the course of a clinical trial, the Company may adjust the rate of clinical expense recognized if actual results differ from management's estimates.

Loss per share

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing the applicable net loss by the sum of the weighted average number of shares outstanding during the year and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year. 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, warrants and compensation options.

Accounting standards issued but not yet adopted

- IFRS 9, Financial Instruments (IFRS 9)

  The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments - Recognition and Measurement (IAS 39). IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

  The Company has reviewed its financial assets and financial liabilities with respect to new guidance under IFRS 9. Accordingly, the Company has determined the new guidance is not expected to affect the classification and measurement of its financial assets and financial liabilities.

  The new impairment model requires the recognition of impairment provisions based on expected credit losses, rather than incurred credit losses alone, as is the case under IAS 39. For the Company, this applies primarily to financial assets classified at amortized cost. Based on the assessments undertaken to date, the Company does not expect a significant increase in the trade receivables provision for impairment.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments, particularly in the year of the adoption of the new standard.

The Company will adopt the standard on the effective date of January 1, 2018. The standard will be implemented retrospectively with no restatement of comparatives following the specific transitional requirements listed in the standard related to classification and measurement and impairments.

- IFRS 15, Revenue from Contracts with Customers (IFRS 15)

  This standard replaces IAS 11, Construction Contracts, IAS 18, Revenue, and International Financial Reporting Interpretations Committee (IFRIC) 13, Customer Loyalty Programmes. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The latest date of mandatory implementation of IFRS 15 is January 1, 2018. The Company has determined it will apply this standard on a fully retrospective basis.

  Management has assessed the effects of applying the new standard on the Company's consolidated financial statements. The Company does not expect the adoption of IFRS 15 to have a material impact on the consolidated financial statements.

  The new standard also introduces expanded disclosure requirements. These are expected to change the nature and extent of the Company's disclosures about its contracts with customers and associated revenue recognition upon adoption of the new standard.

- IFRS 16, Leases (IFRS 16)

  On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the consolidated balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning January 1, 2019 and will recognize assets and liabilities for all leases, except for its low value leases, on the consolidated balance sheet on adoption.

- IFRIC 23, Uncertainty over Income Tax Treatments (IFRIC 23)

  On June 7, 2017, the IASB issued IFRIC 23. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. The IFRIC 23 interpretation specifically addresses whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Company is currently evaluating the impact of adopting this interpretation on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements

3 Critical accounting estimates and judgments

Critical accounting judgments

- Complex financial instruments

  The Company makes various judgments when determining the accounting for certain complex financial instruments. The Company has concluded that the contingent consideration in a business combination represents a financial liability measured at fair value through profit or loss. The revenue share obligation represents an executory contract and is accounted for as a best estimate provision.

- Accounting for acquisitions

  The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under IFRS 3. This assessment requires management to assess whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business. The Company's acquisition has been accounted for as a business combination.

Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed as follows:

- Revenue share obligation

  The revenue share obligation provision was determined using certain assumptions described in note 9. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

- Impairment of non-financial assets

  The Company reviews amortized non-financial assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may be impaired. It also reviews goodwill annually for impairment. If the recoverable amount of the respective non-financial asset is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, management makes assumptions about future events and circumstances. The actual results may vary and may cause significant adjustments.

- Accounting for acquisitions and contingent consideration

  Areas of estimation include the determination and fair value measurement of the contingent consideration, which includes the Company developing its best estimate of projected revenue, the probability of the contingency being achieved, and the discount rate. Management is also required to make estimates of the fair value of assets acquired and liabilities assumed.

- Clinical trial expenses

  Clinical trial expenses are accrued based on the services received and efforts expended pursuant to agreements with clinical trial sites and other vendors. In the normal course of business the company contracts third parties to perform various clinical trial activities. The financial terms of these agreements vary from contract to contract, are subject to negotiation and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrollment of patients or the completion of certain portions of a clinical trial. The company determines the accrual by reviewing contracts, vendor agreements and through discussions with internal personnel and external clinical trial sites as to the progress or stage of completion of the clinical trial and the agreed-upon fees to be paid for such services. Actual costs and timing of the clinical trial is uncertain, subject to risks and may change depending on a number of factors.

4 Business combination

On July 31, 2017, the Company entered into an Asset and Share Purchase Agreement (the Agreement) to acquire all of the issued and outstanding shares and certain assets of the Royal Philips' (Philips) Sonalleve MR-HIFU business (Sonalleve MR-HIFU). Under the terms of the Agreement, Philips transferred its Sonalleve MR-HIFU assets to Profound for an upfront consideration of 7,400,000 common shares of Profound. The Agreement includes certain contingent consideration payments payable monthly in Euros tied to future revenue levels of the Sonalleve MR-HIFU business summarized as follows:

- 5% of revenue between the date of acquisition and December 31, 2017;
- 6% of revenue during the year ending December 31, 2018;
- 7% of revenue during the years ending December 31, 2019 and 2020; and
- if total revenues are in excess of a defined amount from the date of acquisition to December 31, 2020 then the Company will be required to pay 7% of revenue from the date of acquisition to December 31, 2019.

As a condition of closing, the Company committed to repay all amounts outstanding under the Knight Loan (note 10) on or before December 31, 2018.

The non-exclusive strategic sales relationship with Philips was expanded to include distribution of Sonalleve MR-HIFU. Under the terms of the Agreement, Philips will also provide other services, including, but not limited to, manufacturing and installation of Sonalleve MR-HIFU for a certain period of time at market rates.

The Company accounted for this transaction as a business combination and has applied the acquisition method of accounting. The purchase price allocation of assets acquired and liabilities assumed and the fair value of the total consideration transferred is as follows:

	$
Assets acquired and liabilities assumed	
Cash	183,988
Accounts payable and accrued liabilities	(183,988)
Property and equipment (note 7)	713,872
Intangible assets (note 8)	5,372,435
Goodwill	3,409,165
	9,495,472
Consideration paid or payable	
Common shares issued	7,844,000
Fair value of contingent consideration (note 11)	1,651,472
	9,495,472

Goodwill of $3,409,165 arising from the acquisition is attributable to the acquired workforce and synergies expected from combining the operations of the Company.

The contingent consideration is classified as a Level 3 financial liability within the fair value hierarchy given its fair value is estimated using the discounted value of estimated future payments. The key assumptions in valuing the contingent consideration include: estimated projected net sales; the likelihood of certain contingent milestones being reached; and a discount rate of 15%. During the year ended December 31, 2017, the change in fair value of the contingent consideration was a loss of $82,578.

Had the Sonalleve MR-HIFU business been consolidated from January 1, 2017, the consolidated statements of loss and comprehensive loss would be pro forma revenue of $6,883,850 and a pro forma net loss and comprehensive loss of $21,657,797 for the year ended December 31, 2017.

During the period from July 31, 2017 to December 31, 2017, there was revenue of $2,484,804 and a net loss and comprehensive loss of $1,166,582 recorded in the consolidated statements of loss and comprehensive loss related to the former Sonalleve MR-HIFU business.

Acquisition-related costs of $716,767 have been charged to general and administrative expenses in the consolidated statements of loss and comprehensive income.

5 Trade and other receivables

The trade and other receivables balance comprises the following:

	2017 $	2016 $
Trade receivables	3,971,768	-
Indirect tax receivables	279,890	266,336
	4,251,658	266,336

Trade receivables include the gross revenue amount billed to customers. Included in accounts payable and accrued liabilities is an amount of $2,534,259 (2016 - $nil) payable to the same counterparty as the corresponding trade receivable balance of $3,505,423 as there is no legal right of offset with respect to the receivable and payable balances.

An aging of trade receivable balances past due but not impaired is as follows:

	2017 $	2016 $
Past due 1 - 30 days	16,057	-
Past due 31 - 60 days	1,553,215	-
	1,569,272	-

Amounts past due represent trade receivables past due based on the customer's contractual terms. The net amounts past due have been assessed for recoverability by the Company. Subsequent to year-end, all of the trade receivable balance has been collected.

6 Inventory

	2017 $	2016 $
Finished goods	715,193	545,051
Raw materials	799,589	-
Inventory provision	(83,625)	(128,228)
Total inventory	1,431,157	416,823

Inventories recognized as an expense in cost of sales during the year ended December 31, 2017 amount to $2,255,727 (2016 - $nil). The Company decreased its inventory provision by $44,603 during the year ended December 31, 2017. There were no other inventory writedowns charged to cost of sales during the year ended December 31, 2017. Included in cost of sales is a salaries and benefits expense of $185,609.

7 Property and equipment

Property and equipment consist of the following:

	Furniture and fittings $	Research and manufacturing equipment $	Leasehold improvements $	Computer equipment $	Computer software $	Total $
Year ended December 31, 2016						
Opening net book value	47,932	82,687	5,395	59,282	33,816	229,112
Additions	151,921	152,552	552,637	44,390	-	901,500
Disposal	-	-	-	-	(10,248)	(10,248)
Depreciation	(26,652)	(54,844)	(27,884)	(34,387)	(23,568)	(167,335)
Closing net book value	173,201	180,395	530,148	69,285	-	953,029
At December 31, 2016						
Cost	235,169	402,292	578,561	192,681	176,462	1,585,165
Accumulated depreciation	(61,968)	(221,897)	(48,413)	(123,396)	(176,462)	(632,136)
Net book value	173,201	180,395	530,148	69,285	-	953,029
Year ended December 31, 2017						
Opening net book value	173,201	180,395	530,148	69,285	-	953,029
Additions	-	254,378	140,181	19,860	-	414,419
Acquisition (note 4)	-	713,872	-	-	-	713,872
Foreign exchange	-	16,150	-	-	-	16,150
Depreciation	(38,318)	(217,207)	(64,540)	(51,255)	-	(371,320)
Closing net book value	134,883	947,588	605,789	37,890	-	1,726,150
At December 31, 2017						
Cost	235,169	1,386,692	718,742	212,541	176,462	2,729,606
Accumulated depreciation	(100,286)	(439,104)	(112,953)	(174,651)	(176,462)	(1,003,456)
Net book value	134,883	947,588	605,789	37,890	-	1,726,150

Depreciation expense of $1,734 (2016 - $nil) is included in cost of sales, $9,820 (2016 - $2,780) is included in research and development expense, $373 (2016 - $380) is included in selling and distribution and $359,393 (2016 - $164,175) is included in general and administrative expenses.

8 Intangible assets

Intangible assets consist of the following:

	Exclusive licence agreement $	Software $	Proprietary technology $	Brand $	Total $
Year ended December 31, 2016					
Opening net book value	32,500	-	-	-	32,500
Additions	-	249,858	-	-	249,858
Amortization	(2,500)	(17,173)	-	-	(19,673)
Closing net book value	30,000	232,685	-	-	262,685
As at December 31, 2016					
Cost	50,000	249,858	-	-	299,858
Accumulated amortization	(20,000)	(17,173)	-	-	(37,173)
Net book value	30,000	232,685	-	-	262,685
Year ended December 31, 2017					
Opening net book value	30,000	232,685	-	-	262,685
Additions	-	34,080	-	-	34,080
Acquisition (note 4)	-	-	4,489,295	883,140	5,372,435
Disposals	-	(26,684)	-	-	(26,684)
Amortization	(2,500)	(50,315)	(374,108)	(73,595)	(500,518)
Closing net book value	27,500	189,766	4,115,187	809,545	5,141,998
As at December 31, 2017					
Cost	50,000	257,254	4,489,295	883,140	5,679,689
Accumulated amortization	(22,500)	(67,488)	(374,108)	(73,595)	(537,691)
Net book value	27,500	189,766	4,115,187	809,545	5,141,998

Amortization expense of $5,422 (2016 - $nil) is included in cost of sales, $461,480 (2016 - $2,500) is included in research and development expense and $33,616 (2016 - $17,173) is included in general and administrative expenses.

The Company has a licence agreement (the licence) with Sunnybrook Health Sciences Centre (Sunnybrook), pursuant to which Sunnybrook licenses to the Company certain intellectual property. Pursuant to the licence, the Company has exclusively licensed-in rights that enable the Company to use Sunnybrook's technology for MRI-guided trans-urethral ultrasound therapy. Under the licence, the Company is subject to various obligations, including milestone payments of up to $250,000 (on FDA approval) and legal costs associated with patent application preparation, filing and maintenance. Subject to certain buy out provisions as defined in the licence, the Company has the option to acquire ownership of the licensed technology and intellectual property. In addition, the Company has a further option to acquire rights to improvements to the relevant technology and intellectual property. If the Company fails to comply with any of its obligations or otherwise breaches this agreement, Sunnybrook may have the right to terminate the licence.

In accordance with the Company's accounting policy, the carrying value of goodwill is assessed annually as well as assessed for impairment triggers at each reporting date to determine whether there exists any indicators of impairment. When there is an indicator of impairment of non-current assets within a CGU or group of CGUs containing goodwill, the Company tests the non-current assets for impairment first and recognizes any impairment loss on goodwill before applying any remaining impairment loss against the non-current assets within the CGU.

The Company completed its annual goodwill impairment testing on the goodwill related to the Sonalleve MR-HIFU CGU, which comprises all of the goodwill of the Company, on December 31, 2017. The recoverable amount of the Sonalleve MR-HIFU CGU was calculated using fair value less costs of disposal (FVLCD).

The calculation of the recoverable amount of the Sonalleve MR-HIFU CGU was determined using discounted cash flow projections based on financial forecasts approved by management covering a four-year period (Level 3 of fair value hierarchy) and a terminal growth assumption of 4%. The key assumptions and estimates used in determining the FVLCD are related to revenue and EBITDA assumptions, which are based on the financial forecast and assumed growth rates, working capital assumptions, the effective tax rate of 26.5% and the discount rate of 20.3% applied to the cash flow projections. As a result of the impairment testing performed, it was determined that the recoverable amount of the Sonalleve MR-HIFU CGU exceeded the carrying value and no impairment writedown was required.

9 Provisions

	Asset retirement obligation $	Revenue share obligation $	Warranty provision $	Total $
As at January 1, 2016	-	-	-	-
Additions	37,509	-	-	37,509
Accretion expense	2,110	-	-	2,110
As at December 31, 2016	39,619	-	-	39,619
Additions	-	921,906	115,351	1,037,257
Accretion expense	4,585	-	-	4,585
As at December 31, 2017	44,204	921,906	115,351	1,081,461
Less: Current portion	-	-	93,222	93,222
Non-current portion	44,204	921,906	22,129	988,239

Asset retirement obligation

The asset retirement obligation is related to the Company's leasehold improvements.

Revenue share obligation

The Company has certain minimum amounts payable under a revenue sharing agreement. The provision was determined using future revenue forecasts related to the revenue share agreement and a discount rate of 11%. This provision represents the Company's estimated shortfall of revenue share payments over the term of this agreement. If the revenue forecast were to decrease or increase by 10% then the revenue share obligation would increase or decrease by $15,345. The amount has been included in selling and distribution expenses in the consolidated statements of loss and comprehensive loss.

Warranty provision

The warranty provision is related to the Company's estimate of future warranty obligations on product sales, which generally have a term of one year.

10 Long-term debt

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

	2017 $	2016 $
FedDev and HTX loans	1,607,195	2,027,893
Knight Loan	3,537,894	4,609,983
Balance - End of year	5,145,089	6,637,876
Less: Current portion	4,701,214	2,877,050
Non-current portion	443,875	3,760,826

The Federal Economic Development Agency (FedDev) loan is unsecured and 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. As at December 31, 2017, the principal balance outstanding on this loan is $621,350 (2016 - $708,050).

During the year, the Company recognized $54,024 of interest and accretion expense on this loan (2016 - $57,076).

The Health Technology Exchange (HTX) loans with total proceeds of $1,500,000 are unsecured, bearing interest at 4.50% per annum, with the remaining repayment on March 31, 2018 of $800,000 plus accrued interest. As at December 31, 2017, the principal balance outstanding on this loan was $800,000 (2016 - $1,300,000).

During the year, the Company recognized $111,978 of interest and accretion expense on these loans (2016 - $107,046).

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

	2017 $	2016 $
Balance - Beginning of year	2,027,893	2,150,471
Repayment	(586,700)	(286,700)
Interest and accretion expense	166,002	164,122
Balance - End of year	1,607,195	2,027,893
Less: Current portion	1,163,320	586,700
Non-current portion	443,875	1,441,193

On April 30, 2015, Profound Medical Inc. (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. Repayments commenced on June 30, 2017 with 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 products 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).

In the event the Company repays the Knight Loan before the end of the term, it would be subject to a prepayment fee. The prepayment fee is the greater of the total unpaid annual interest that would have been payable during the year in which the prepayment is made and $200,000.

The Knight Loan represented a financial liability that includes embedded derivatives that required separation. The prepayment and extension features represent embedded derivatives that are combined for measurement purposes and are recorded at fair value on initial recognition. The embedded derivatives are remeasured at fair value at each period with any changes recognized in the consolidated statements of loss and comprehensive loss. The host financial liability component is recorded as the residual amount net of transaction costs on initial recognition and is accreted to the principal amount over the contractual life using the effective interest rate method. As at December 31, 2017, the fair value of the embedded derivatives was $nil (2016 - $nil).

As part of the Agreement (note 4), the Company is required to repay all amounts outstanding under the loan agreement with Knight on or before December 31, 2018.

A reconciliation of the Knight Loan balance is as follows:

	2017 $	2016 $
Balance - Beginning of year	4,609,983	3,696,903
Repayment	(2,290,350)	-
Interest and accretion expense	1,218,261	913,080
Balance - End of year	3,537,894	4,609,983
Less: Current portion	3,537,894	2,290,350
Non-current portion	-	2,319,633

The royalty was initially recorded at fair value and was 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 year, the Company revised the fair value of the royalty, using future revenue forecasts for the term of the loan and a discount rate of 18%, and recognized an interest accretion recovery of $36,438 (2016 - accretion recovery of $249,413). The current portion of this liability as at December 31, 2017 is $68,922 (2016 - $39,357) and the non-current portion is $27,972 (2016 - $109,044) and is included within other liabilities on the consolidated balance sheets (note 11).

11 Other liabilities

	Knight royalty payable $ (note 11)	Contingent consideration $ (note 5)	Deferred rent $	Total $
As at January 1, 2016	397,814	-	-	397,814
Additions	-	-	161,320	161,320
Accretion recovery	(249,413)	-	-	(249,413)
As at December 31, 2016	148,401	-	161,320	309,721
Additions	-	1,651,472	123,627	1,775,099
Amounts paid	(15,069)	-	-	(15,069)
Change in fair value (note 17)	-	82,578	-	82,578
Accretion recovery (note 17)	(36,438)	-	-	(36,438)
As at December 31, 2017	96,894	1,734,050	284,947	2,115,891
Less: Current portion	68,922	466,036	-	534,958
Non-current portion	27,972	1,268,014	284,947	1,580,933

Knight royalty payable

As part of the Knight Loan, Knight was granted a royalty of 0.5% on net sales resulting from global sales of the Company's products for the duration of the Knight Loan.

Deferred rent

The deferred rent obligation is related to the Company's straight-line rent accrual for its current premises. The deferred rent obligation as at December 31, 2016 is included in accounts payable and accrued liabilities.

12 Share capital

Common shares

Authorized
Unlimited common shares

Issued and outstanding (with no par value)

	2017 $	2016 $
73,117,377 (2016 - 55,305,577) common shares	98,365,770	83,272,678

On September 20, 2017, the Company closed a bought deal financing, resulting in the issuance of 10,000,000 units at a price of $1.00 per unit for gross proceeds of $10,000,000 ($8,913,868, net of cash transaction costs). Each unit consisted of one common share of the Company and one-half of one warrant, with each whole warrant entitling the holder to acquire one common share at a price of $1.40 per common share until the date that is 36 months from the closing of the bought deal financing.

On November 14, 2016, the Company closed a bought deal financing, resulting in the issuance of 15,820,000 common shares at a price of $1.10 per common share for gross proceeds of $17,402,000 ($16,182,997, net of transaction costs).

Warrants

A summary of the warrants is shown below:

	Number of warrants	Weighted average exercise price $	Weighted average remaining contractual life (years)
Balance - January 1, 2017	-	-	-
Granted	5,000,000	1.40	2.72
Balance - December 31, 2017	5,000,000	1.40	2.72

The Company estimated the fair value of the warrants issued using the Black-Scholes option pricing model with the following assumptions.

	September 20, 2017
Share price on date of issuance	$0.95
Volatility	77%
Expected life of warrants	3 years
Risk-free interest rate	1.56%
Dividend yield	-

The estimated fair value of the warrants issued as part of the bought deal financing was $1,936,247 or $0.39 per warrant and was recorded in contributed surplus.

13 Share-based payments

Share options

Effective January 26, 2017, the Company adopted amendments to the share option plan (the Share Option Plan). The maximum number of common shares reserved for issuance under this plan is 7,189,725 common shares or such other number as may be approved by the holders of the voting shares of the Company. As at December 31, 2017, 5,318,279 (2016 - 4,689,839) options are outstanding. Each option granted allows the holder to purchase one common share, at an exercise price not less than the lesser of the closing trading price of the common shares on the TSX Venture Exchange, on the date a share option is granted and the volume-weighted average price of the common shares for the five trading shares immediately preceding the date the share option is granted. Share options granted under the Share Option Plan generally have a maximum term of ten years and vest over a period of up to four years. In addition to the time-based vesting schedule, under the previous share option plan, the Company has also granted share options subject to a modified vesting schedule based on the Company achieving certain milestones relating to its technology.

A summary of the share option changes during the years presented and the total number of share options outstanding as at those dates are set forth below:

	Number of options	Weighted average exercise price $
Balance - January 1, 2016	3,407,283	1.05
Granted	1,650,696	1.33
Exercised	(12,250)	0.30
Forfeited/expired	(355,890)	1.44
Balance - December 31, 2016	4,689,839	1.13
Granted	2,141,583	1.02
Exercised	(411,800)	0.24
Forfeited/expired	(1,101,343)	1.42
Balance - December 31, 2017	5,318,279	1.09

The following table summarizes information about the share options outstanding as at December 31, 2017:

Exercise price $	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
0.24	670,000	3.77	645,000
0.30	21,000	1.31	21,000
0.85	658,000	9.88	-
0.97	66,000	9.32	-
1.10	1,971,724	8.96	504,475
1.35	132,500	8.65	78,210
1.46	964,055	8.64	323,226
1.50	835,000	7.68	480,983
	5,318,279	8.13	2,052,894

The Company estimated the fair value of the share options granted during the year using the Black-Scholes option pricing model with the following weighted average assumptions. Due to the absence of Company specific volatility rates, the Company chose comparable companies in the medical device industry.

	May 4, 2016	July 9, 2016	August 22, 2016	September 15, 2016	November 24, 2016
Volatility	73%	73%	101%	99%	99%
Expected life of share options	6 years	6 years	6 years	6 years	6 years
Risk-free interest rate	1.18%	0.89%	0.86%	0.82%	0.94%
Dividend yield	nil	nil	nil	nil	nil

	January 26, 2017	April 25, 2017	November 16, 2017
Volatility	99%	97%	135%
Expected life of share options	6 years	6 years	6 years
Risk-free interest rate	1.35%	1.37%	1.90%
Dividend yield	nil	nil	nil

Compensation expense related to share options recorded in the consolidated statements of loss and comprehensive loss for the year was $1,338,330 (2016 - $1,001,558).

Compensation options

In connection with the 2015 private placement, Profound Medical Inc. (PMI) issued 576,235 compensation options to the agents to purchase common shares of PMI, which were exchanged for compensation options to purchase common shares of the Company.

A summary of the compensation option changes during the year and the total number of compensation options outstanding is set forth below:

	Number of compensation options	Weighted average exercise price $
Balance - January 1, 2016	649,568	1.48
Expired	(73,333)	1.36
Balance - December 31, 2016	576,235	1.50
Expired	(576,235)	1.50
Balance - December 31, 2017	-	-

14 Research and development expenses

	2017 $	2016 $
Materials	601,756	3,125,364
Salaries and benefits	4,243,353	3,680,727
Share-based compensation	120,724	109,328
Consulting fees	1,237,311	1,156,548
Travel	325,801	259,553
Rent	336,713	334,403
Other	227,190	431,901
Clinical trial costs	2,328,060	1,016,182
Contractors	-	136,386
Amortization of intangible assets	461,480	2,500
Depreciation of property and equipment	9,820	2,780
Investment tax credits (i)	(254,018)	(266,979)
	9,638,190	9,988,693

(i) 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).

15 General and administrative expenses

	2017 $	2016 $
Salaries and benefits	1,438,546	1,350,356
Professional and consulting fees	2,051,173	1,074,793
Share-based compensation	1,166,927	877,238
Travel	150,807	202,522
Rent	241,720	221,356
Office and other	493,033	451,427
Depreciation of property and equipment	359,393	164,175
Amortization of intangible assets	33,616	17,173
Loss on disposal of property and equipment	-	10,248
	5,935,215	4,369,288

16 Selling and distribution expenses

	2017 $	2016 $
Revenue share obligation (note 9)	953,429	-
Salaries and benefits	1,261,510	611,119
Professional and consulting fees	753,897	399,923
Marketing	265,370	8,296
Share-based compensation	47,812	14,992
Travel	353,126	121,165
Commission expense	73,046	-
Office and other	217,614	126,938
	3,925,804	1,282,433

17 Finance costs

	2017 $	2016 $
HTX and FedDev loans (note 10)	166,002	164,122
Knight Loan (note 10)	1,218,261	913,080
Royalty interest accretion (recovery) (note 10)	(36,438)	(249,413)
Change in fair value of contingent consideration (note 4)	82,578	-
Provisions (note 9)	4,585	2,110
Foreign exchange (gain) loss	(185,904)	-
	1,249,084	829,899

18 Income taxes

Income tax expense differs from the tax recovery amount that would be obtained by applying the statutory income tax rate to the respective year's loss before income taxes as follows:

	2017 $	2016 $
Loss before income taxes	18,748,219	16,312,715
Recovery based on combined federal and provincial statutory rate of 26.5% (2016 - 26.5%)	(4,968,278)	(4,322,869)
Permanent differences	(301,808)	(802,664)
Change in deferred tax assets not recognized	5,170,031	4,789,529
Effect of tax rates in foreign jurisdictions	9,897	6,639
True-ups and other	164,281	343,419
Net income tax expense	74,123	14,054

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company has not recognized deferred tax assets that can be carried forward against future taxable income.

Permanent differences are primarily comprised of non-refundable tax credits and deductible finance fees not recorded in the consolidated statements of loss and comprehensive loss offset by non-deductible share-based compensation and accretion expense. In 2017, the permanent differences were primarily comprised of share-based compensation, accretion expense, non-refundable tax credits and deductible finance fees.

The Company has non-capital loss carry-forwards of approximately $40,050,000 as at December 31, 2017 that expire in varying amounts from 2028 to 2037.

The Company has SR&ED expenditures of approximately $12,815,000 as at December 31, 2017, which can be carried forward indefinitely to reduce future years' taxable income.

The Company has approximately $2,375,000 of federal and provincial tax credits that are available to be applied against federal and provincial taxes otherwise payable in future years and expire in varying amounts from 2028 to 2037.

19 Loss per share

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

	2017 $	2016 $
Net loss for the year	18,822,342	16,326,769
Basic and diluted weighted average number of shares outstanding	61,404,141	41,510,145
Basic and diluted loss per share	0.31	0.39

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

Of the 5,318,279 (2016 - 4,689,839) share options, 5,000,000 (2016 - nil) warrants and nil (2016 - 576,235) compensation options not included in the calculation of diluted loss per share for the year ended December 31, 2017, 7,052,894 (2016 - 2,315,602) were exercisable.

20 Financial assets and liabilities

Classification of financial instruments

The classification of financial assets and liabilities is as follows:

			2017
	Fair value through profit or loss $	Loans and receivables $	Other financial liabilities $
Cash	-	11,103,223	-
Trade and other receivables	-	4,251,658	-
Accounts payable and accrued liabilities	-	-	5,081,704
Long-term debt	-	-	5,145,089
Other liabilities	1,734,050	-	96,894
	1,734,050	15,354,881	10,323,687

		2016
	Loans and receivables $	Other financial liabilities $
Cash	20,833,061	-
Trade receivables	266,336	-
Accounts payable and accrued liabilities	-	1,771,427
Long-term debt	-	6,637,876
Other liabilities	-	148,401
	21,099,397	8,557,704

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk on its cash and trade and other receivable balances. The Company's cash management policies include ensuring that cash is deposited in Canadian chartered banks. Management monitors the collectability of trade and other receivables and estimates an allowance for doubtful accounts, where necessary. As at December 31, 2017, the allowance for doubtful accounts was $nil.

Financial instruments that potentially subject the Company to significant concentrations of credit risk primarily consist of trade and other receivables. The Company evaluates the recoverability of its trade and other receivables on an ongoing basis. As at December 31, 2017, the Company's largest customer accounted for approximately 81% or $3,437,981 of trade and other receivables.

Market risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, including interest rate risk and foreign currency risk.

- Interest rate price risk

  Interest rate price risk is the risk the cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is not exposed to such fluctuations relating to the long-term debt, as it either bears no interest or bears interest at a fixed rate.

- Foreign currency risk

  Foreign currency risk occurs as a result of foreign exchange rate fluctuations between the time a transaction is recorded and the time it is settled.

  The Company purchases goods and services denominated in foreign currencies and, accordingly, is subject to foreign currency risk. The Company's financial instruments denominated in foreign currencies are shown below in Canadian dollars.

				2017
	US dollars $	Euro $	Canadian dollars $	Total $
Cash	18,479	338,743	10,746,001	11,103,223
Trade and other receivables	747,180	3,396,317	108,161	4,251,658
Accounts payable and accrued liabilities	(774,814)	(2,156,360)	(2,150,530)	(5,081,704)
Other liabilities	-	(1,734,050)	(96,894)	(1,830,944)

	2016				
	US dollars $	**Euro $**	**British pounds $**	**Canadian dollars $**	**Total $**
Cash	98,567	22,321	878	20,711,295	20,833,061
Trade and other receivables	-	59,589	-	206,747	266,336
Accounts payable and accrued liabilities	(607,537)	(179,462)	-	(984,428)	(1,771,427)

As at December 31, 2017, if foreign exchange rates had been 5% higher, with all other variables held constant, loss before income taxes would have been $8,225 (2016 - $30,282) higher, mainly as a result of the translation of foreign currency denominated cash, trade and other receivables, accounts payable and accrued liabilities and other liabilities.

The Company does not use derivatives to reduce exposure to foreign currency risk.

Liquidity risk

Liquidity risk is the risk the Company may encounter difficulties in meeting its financial liability obligations as they come due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. The Company's ability to accomplish all of its future strategic plans is dependent on obtaining additional financing or executing other strategic options; however, there is no assurance the Company will achieve these objectives.

The following table summarizes the Company's significant contractual, undiscounted cash flows related to its financial liabilities.

	2017				
	Carrying amount $	**Future cash flows $**	**Less than 1 year $**	**Between 1 year and 5 years $**	**Greater than 5 years $**
Accounts payable and accrued liabilities	5,081,704	5,081,704	5,081,704	-	-
Long-term debt	5,145,089	5,802,658	5,268,011	534,647	-
Other liabilities	1,830,944	2,161,552	419,121	1,742,431	-
	12,057,737	13,045,914	10,768,836	2,277,078	-

					2016
	Carrying amount $	**Future cash flows $**	**Less than 1 year $**	**Between 1 year and 5 years $**	**Greater than 5 years $**
Accounts payable and accrued liabilities	1,771,427	1,771,427	1,771,427	-	-
Long-term debt	6,637,876	8,608,401	2,877,050	5,731,351	-
Other liabilities	148,401	230,375	39,357	191,018	-
	8,557,704	10,610,203	4,687,834	5,922,369	-

Fair value

The fair values of cash, trade and other receivables and accounts payable and accrued liabilities approximate their carrying values, due to their relatively short periods to maturity.

The fair value of the long-term debt is $5,145,089 (2016 - $6,637,876) and has been determined based on discounted cash flows and other assumptions, which are within Level 3 of the fair value hierarchy (note 10).

21 Related party transactions

Key management includes the Company's directors and senior management team. The remuneration of directors and the senior management team was as follows during the years ended December 31:

	2017 $	**2016 $**
Salaries and employee benefits	1,021,568	1,247,563
Termination benefits	138,125	-
Directors' fees	88,232	63,616
Share-based compensation	1,220,655	862,798
	2,468,580	2,173,977

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

Transactions

Research and development expenses include $nil of director fees related to the Company's US subsidiary paid to an individual related to an executive officer (2016 - $13,333).

22 Commitments and contingencies

The Company has commitments under operating leases for the rental of office space. During the year the company recognized rent expense of $591,243 (2016 - $555,759) under operating leases. On March 28, 2017, the Company signed a lease for new office space and took possession of this office space effective July 1, 2017. Included in prepaid expenses and deposits is an amount of $330,000 related to prepaid rent for this lease that is drawn down at $10,000 per month. The future minimum obligation under these leases is as follows:

	$
No later than 1 year	431,396
Later than 1 year and no later than 5 years	2,203,851
Later than 5 years	2,169,254
	4,804,501

In 2017, the Company signed an agreement that includes revenue sharing with a minimum amount payable of US$3,500,000 over the next five years (note 9).

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 offerings disclosed in notes 12 and 25 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.

23 Capital management

The Company's capital management objectives are to safeguard its ability to continue as a going concern and to provide returns for shareholders and benefits for other stakeholders by ensuring it has sufficient cash resources to fund its research and development activities, to pursue its eventual commercialization efforts and to maintain its ongoing operations. The Company includes its share capital, deficit and long-term debt in the definition of capital.

A summary of the Company's capital structure is as follows:

	2017 $	2016 $
Common shares	98,365,770	83,272,678
Deficit	(90,270,672)	(71,448,330)
Long-term debt	5,145,089	6,637,876
	13,240,187	18,462,224

24 Segment reporting

The Company's operations are categorized into one industry segment, which is medical devices focused on magnetic resonance guided ablation procedures. The Company had historically been managed in Canada until the acquisition of Sonalleve MR-HIFU during the year, and as a result the Company is now managed geographically in Canada, Germany and Finland. All revenue during the year was from customers located in Europe.

For the year ended December 31, 2017:

	Canada $	Germany $	Finland $	Total $
Revenue	3,331,606	1,572,944	-	4,904,550
Cost of sales	1,967,677	1,064,531	-	3,032,208
Gross profit	1,363,929	508,413	-	1,872,342
Expenses				
Research and development	8,952,890	-	685,300	9,638,190
General and administrative	5,617,214	-	318,001	5,935,215
Selling and distribution	1,950,204	1,819,814	155,786	3,925,804
	16,520,308	1,819,814	1,159,087	19,499,209
Segment loss	15,156,379	1,311,401	1,159,087	17,626,867
Net finance costs				1,121,352
Loss for the year before income taxes				18,748,219

Other financial information by segment as at December 31, 2017:

	Canada $	Germany $	Finland $	Total $
Total assets	25,546,183	1,227,216	1,105,980	27,879,379
Goodwill and intangible assets	8,551,163	-	-	8,551,163
Property and equipment	1,093,389	3,366	629,395	1,726,150
Amortization of intangible assets	500,518	-	-	500,518
Depreciation of property and equipment	268,403	2,290	100,627	371,320
Intangible assets and goodwill additions or acquisition	8,815,680	-	-	8,815,680
Property and equipment additions or acquisition	409,435	4,984	730,022	1,144,441

25 Subsequent event

On March 20, 2018, the Company closed a bought deal financing, resulting in the issuance of 34,500,000 units at a price of $1.00 per unit for gross proceeds of $34,500,000. Each unit consisted of one common share of the Company and one-half of one warrant, with each whole warrant entitling the holder to acquire one common share at an exercise price of $1.40 per common share until the date that is five years from the closing of the bought deal financing, subject to accelerated expiry provisions.