Management Discussion and Analysis of Profound Medical Corp.
for the Three and Nine Months Ended September 30, 2016

The following Management Discussion and Analysis ("MD&A") prepared as of November 16, 2016 should be read in conjunction with the September 30, 2016 unaudited interim condensed consolidated financial statements and related notes of Profound Medical Corp. and its subsidiaries (together, "Profound" or the "Company"). The unaudited interim condensed consolidated financial statements and related notes were 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 and are presented in Canadian dollars unless otherwise noted. Unless stated otherwise, all references to "$" are to Canadian dollars.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" which include all statements other than statements of historical fact contained in this MD&A, such as statements that relate to the Company's current expectations and views of future events. Often, but not always, forward-looking statements can be identified by the use of words such as "may", "will", "expect", "anticipate", "predict", "aim", "estimate", "intend", "plan", "seek", "believe", "potential", "continue", "is/are likely to", "is/are projected to" or the negative of these terms, or other similar expressions intended to identify forward-looking statements. These forward-looking statements include, among other things, statements relating to expectations regarding future clinical trials, expectations regarding regulatory approvals, expectations regarding the safety and efficacy of its product, expectations regarding the use of its product and its revenue, expenses and operations, plans for and timing of expansion of its product and service offerings, future growth plans, ability to attract and develop and maintain relationships with suppliers, physicians/clinicians, etc., ability to attract and retain personnel, expectations regarding growth in its product markets, competitive position and its expectations regarding competition, ability to raise debt and equity capital to fund future product development, and anticipated trends and challenges in Profound's business and the markets in which it operates.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The results, performance and achievements of the Company will be affected by, among other things, the "Risk Factors' set out in the Company's Annual Information Form prepared as of August 9, 2016 for the year ended December 31, 2015 available on SEDAR at www.sedar.com.

Forward-looking statements contained herein are made as of the date of this MD&A and Profound disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, unless required by applicable law. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty in them.

OVERVIEW

Qualifying Transaction

On April 29, 2015, Profound entered into an amalgamation agreement (the "**Amalgamation Agreement**") and completed its qualifying transaction (the "**Transaction**"). The Transaction proceeded by way of a "three-cornered" amalgamation among Mira IV Acquisition Corp. ("**Mira IV**"), a capital pool company listed on the Toronto Stock Exchange Venture Exchange (the "**Exchange**"), Mira IV Subco Inc., a wholly-owned subsidiary of Mira IV, and Profound Medical Inc. ("**PMI**"), a private Ontario corporation incorporated on June 13, 2008. On June 5, 2015, and prior to the completion of the Transaction, Mira IV changed its name to "Profound Medical Corp." and completed a consolidation of its share capital on the basis of one post-consolidation common share for every 13.6363 pre-consolidation common shares. As a result of the Transaction, PMI became a wholly-owned subsidiary of Profound.

The Transaction resulted in a reverse takeover of Mira IV by the shareholders of PMI (the "**Reverse Takeover**") and, for accounting purposes, PMI was deemed the acquirer. The Transaction constituted a reverse takeover but did not meet the definition of a business under IFRS 3 - Business Combinations; accordingly the Company has accounted for the Transaction in accordance with IFRS 2, Share Based Payments. The identifiable assets and liabilities of Mira IV are recognized at fair value as at the acquisition date, with the excess of the fair value of the equity interest issued over the fair value of net assets charged to the consolidated statement of loss and comprehensive loss as a listing expense.

Following the completion of the Transaction, a total of 39,442,337 common shares of Profound were issued and outstanding.

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

As at November 16, 2016, a total of 55,305,577 common shares were issued and outstanding.

BUSINESS UPDATE AND STRATEGY

The Company is a Canadian medical device company that has developed a unique MR guided ablation procedure for prostate care. Profound's novel technology combines real-time magnetic resonance imaging guidance and ultrasound energy to provide a thermal ablative therapy to the prostate gland. This method of prostate ablation offers short treatment times and low morbidity, allowing for fast patient recovery.

PMI was founded, initially, on certain research conducted at Sunnybrook Health Sciences Centre ("**Sunnybrook**"), pursuant to licensing arrangements between Sunnybrook and PMI. In 2010, in collaboration with Sunnybrook, PMI developed working prototypes and completed institutionally sponsored clinical research trials. In 2011, PMI finalized the system design under formal design controls. In 2012, preclinical studies were completed leading to the finalization of development of our clinical stage device and successful outsourcing of the manufacturing. In April 2013, PMI announced initiation of the Health Canada approved 30 patient multi-center TULSA (Transurethral Ultrasound Ablation) safety and feasibility study of its device. Clinical sites were subsequently expanded to include Germany and the United States, with approvals from the Federal Institute for Drugs and Medical Devices in Germany in July 2013 and the United States Food and Drug Administration ("**FDA**") in September 2013. In March 2014, PMI completed enrollment and treatment of 30 patients in the TULSA multi-jurisdictional safety and feasibility study. On October 15, 2015, the Company presented 12-month follow-up data Phase I clinical outcomes at the European Symposium on Focused Ultrasound Therapy held in London, England. The study demonstrated that Profound's TULSA procedure is well tolerated by patients and to date resulted in low side effects. On April 11, 2016, Profound announced that it has affixed the CE mark to the TULSA-PRO™ system, enabling Profound to market the TULSA-PRO™ in the European Union and in other CE mark jurisdictions. Profound also expects to pursue regulatory market clearance in Canada in the fourth quarter of 2016.

Profound received Investigational Device Exemption ("IDE") from the FDA on May 19, 2016, a prerequisite to launching the Pivotal Trial (as more fully described in the Annual Information Form, dated August 9, 2016 (the "**AIF**")). Also see the AIF for a full description of the regulatory approval process under the heading "Government Regulation", which process is intended to provide evidence and reasonable assurance of safety and efficacy in order to obtain FDA clearance for marketing the Company's device. Based on a new predicate device cleared by the FDA in October 2015, Profound intends to pursue a 510(k) submission of the TULSA-PRO™ system with the FDA as a Class II device and has engaged in pre-submission consultations with FDA officials in this regard. The Company intends to demonstrate appropriate clinical data through the Pivotal Trial (which is currently designed to involve approximately 110 patients from approximately 10-15 clinical sites in total). These clinical sites are located in the United States, Canada and Europe). Profound started the Pivotal Trial on September 22, 2016 with the first patient treated at Vanderbilt University Medical Center.

CORPORATE HIGHLIGHTS

- On August 15, 2016, Profound announced the appointment of Arun Menawat, Ph.D. as its new Chief Executive Officer. Steven Plymale, Profound's current Chief Executive Officer, will transition to President and Chief Operating Officer of Profound. Rashed Dewan has also been promoted from Corporate Controller to Vice President, Finance.

- On September 22, 2016, the Company announced that the first patient has been treated in the TACT Clinical Trial at Vanderbilt University Medical Center in Nashville, TN, USA.

- On October 5, 2016, the Company announced that it has received Frost & Sullivan's 2016 European Prostate Ablation System New Product Innovation Award for its TULSA-PRO™ system.

- On October 17, 2016, Profound announced that it has entered into an agreement with a syndicate of underwriters led by GMP Securities L.P. (the "Lead Underwriter", and collectively with the syndicate, the "Underwriters"), pursuant to which the Underwriters have agreed to purchase, on a bought deal basis pursuant to the filing of a short form prospectus, 15,820,000 common shares of the Company at a price of $1.10 per common share for aggregate gross proceeds to Profound of $17,402,000.

- On November 14, 2016, Profound announced that it has completed its previously announced bought deal offering resulting in the issuance of 15,820,000 common shares for gross proceeds of $17,402,000.

RESULTS OF OPERATIONS

The following is selected unaudited financial information for the three and nine months ended September 30, 2016 and September 30, 2015.

	Three months ended				Nine months ended			
	September 30, 2016	September 30, 2015	Change		September 30, 2016	September 30, 2015	Change	
	$	$	$	%	$	$	$	%
Expenses								
Research and development	2,506,112	1,657,700	848,412	51%	7,229,806	3,598,282	3,631,524	101%
Selling, general and administrative	1,273,521	1,099,798	173,723	16%	3,582,523	5,075,436	(1,492,913)	-29%
Total operating expenses	3,779,633	2,757,498	1,022,135	37%	10,812,329	8,673,718	2,138,611	25%
Finance costs - net								
Preferred share dividend expense	-	-	-	0%	-	481,354	(481,354)	-100%
Interest and accretion expense	302,122	266,603	35,519	13%	840,228	5,348,895	(4,508,667)	-84%
Interest income	(25,270)	(66,922)	41,652	-62%	(123,785)	(80,311)	(43,474)	54%
Listing expense	-	-	-	0%	-	2,058,234	(2,058,234)	100%
Loss on recognition of convertible notes	-	-	-	0%	-	2,094,565	(2,094,565)	100%
Gain on conversion of convertible notes	-	-	-	0%	-	(1,759,885)	1,759,885	-100%
Change in fair value of convertible notes	-	-	-	0%	-	(334,680)	334,680	-100%
Gain on extinguishment of long-term debt	-	-	-	0%	-	(63,568)	63,568	-100%
Change in fair value of derivatives	-	-	-	0%	-	(2,086,406)	2,086,406	-100%
Total finance costs	276,852	199,681	77,171	39%	716,443	5,658,198	(4,941,755)	-87%
Loss before income taxes	4,056,485	2,957,179	1,099,306	37%	11,528,772	14,331,916	(2,803,144)	-20%
Tax expense	4,723	-	4,723	100%	9,380	(726,071)	735,451	-101%
Net loss for the period	4,061,208	2,957,179	1,104,029	37%	11,538,152	13,605,845	(2,067,693)	-15%
Item that may be reclassified to profit or loss								
Foreign currency translation adjustment	5,341	-	5,341	100%	10,495	-	10,495	100%
Net loss and comprehensive loss for the period	4,066,549	2,957,179	1,109,370	38%	11,548,647	13,605,845	(2,057,198)	-15%
Basic and diluted net loss per common share	0.10	0.08	0.02	25%	0.29	0.74	(0.45)	-61%

Research and Development

Our research and development ("R&D") expenses are comprised of costs incurred in performing R&D activities, including clinical trial and related clinical manufacturing costs, materials and supplies, salaries and benefits, contract research costs, patent procurement costs, and occupancy costs. Our R&D activities occur in clinical R&D. Clinical R&D refers to internal and external activities associated with clinical studies of TULSA-PRO in humans and advancing the clinical product towards our goal of obtaining regulatory approval to manufacture and market this product in various jurisdictions.

Expenditures for R&D for the three months ended September 30, 2016 were higher by $848,412 compared to the three months ended September 30, 2015. The increase was primarily due to the activities in preparing regulatory filings for marketing approval of TULSA-PRO in Canada, and preparation for the initiation of the multi-jurisdictional Pivotal Trial. Preparations for the Pivotal Trial include organizing the IDE submission for approximately 15 clinical sites, designed to support a 510(k) submission in the United States to provide a pathway for Class II classification for the TULSA-PRO system. As a result consulting expense increased by $432,202 and validation expense for clinical trials increased by $71,711. The number of employees involved in R&D also increased during this period, resulting in salaries and benefits increasing by $377,741. These increases were offset by reduction in materials expense of $162,571 as costs related to prototyping decreased.

Expenditures for R&D for the nine months ended September 30, 2016 were higher by $3,631,524 compared to the nine months ended September 30, 2015. The increase was primarily due to the preparation of clinical data from the 30 patient TULSA safety and feasibility trial, which was evaluated and submitted for regulatory clearances by the applicable regulatory authority in Canada and Europe for a Medical Device License and CE Mark, respectively. The increase was also due to preparations for an IDE submission and a Pivotal Trial in approximately 15 clinical sites, designed to support a 510(k) submission in the United States to provide a pathway for Class II classification for the TULSA-PRO system. As a result material costs increased by $333,924, consulting expense increased by $749,438 and validation expense for clinical trials increased by $460,285. Rent increased by $159,044 due to relocation to the new office building and onerous lease of the old office. Office expense for the period increased by $216,241 due to insurance expense related to TACT clinical trial and increased freight costs related to products shipments to hospitals. The number of employees involved in R&D also increased during this period to support these activities resulting in salaries and benefits increasing by $1,082,926. We have also recorded $374,158 lower investment tax credits in the nine months ended September 30, 2016. Since becoming a public company as of June 4, 2015, the Company does not qualify for refundable investment tax credits other than Ontario Innovation tax credits.

We expect that our R&D expenditures throughout 2016 will be higher as compared to the same periods in 2015, due to the ongoing submission preparation for a Canadian Medical Device License, and initiation of the Pivotal Trial.

Selling, General and Administrative

Our selling, general and administrative ("SG&A") expenses are comprised of management and business development costs related to the development and commercialization of our TULSA-PRO system, including salaries, benefits, our various management and administrative support functions and other operating and occupancy costs.

SG&A expenses for the three months ended September 30, 2016 were higher by $173,723 compared to the three months ended September 30, 2015. The company established German sales office in January 2016 which contributed along with the recruitment of new CEO to an increase in salaries and benefit expenses by $218,400. Rent and office expenses also increased by $108,369 due to relocation to the new larger office building on July 1, 2016, which was partially offset by lower share options expense.

SG&A expenses for the nine months ended September 30, 2016 were lower by $1,492,913 compared to the nine months ended September 30, 2015 primarily due to marketing expense of $2,303,034 related to the excess of proceeds received on the $4,000,000 secured loan from Knight Therapeutics Inc. ("Knight Loan"), which represents additional value provided to the Company as a result of the Knight relationship. This was offset by higher salaries and benefits of $305,177, and office and other expenses of $204,243, which includes higher insurance premium due to increased liability limits and the TACT clinical trial. The number of employees in SG&A were higher due to the hiring of a CEO, Director of Marketing and other employees. Professional and consulting fees increase of $297,901 related to recruiting fees, Board of Directors fees, and legal fees related to contracts and corporate matters.

Preferred share dividend expense
The holders of Series A1 preferred shares and A2 preferred shares (collectively, the "Preferred Shares") were, when such Preferred Shares were issued and outstanding, entitled to receive, if, as and when declared by the Board of Directors, cumulative dividends at an annual rate of 8%, compounded annually commencing on their respective date of issuance. The Preferred Shares were converted into common shares of Profound pursuant to the Transaction. Accordingly, there was no preferred share dividend expense for the three and nine months ended September 30, 2016. The preferred share dividend expense for the nine months ended September 30, 2015 was $481,354.

Interest and accretion expense
Interest and accretion expense relates to the following (i) the Preferred Shares accreting to their respective redemption prices over their expected life, including accelerated accretion due to the conversion of the Preferred Shares prior to their maturity date, (ii) the Federal Economic Development Agency loan accreting to the principal amount repayable, (iii) the Health Technology Exchange (HTX) loan accreting to the principal amount repayable and its related interest expense, (iv) the Knight Loan accreting to the principal amount repayable and its related interest expense, (v) the convertible notes (the Notes) interest expense, (vi) the bank loan interest expense, and (vii) the 0.5% royalty to Knight.

Interest and accretion expense for the three months ended September 30, 2016 was higher by $35,519 compared to the three months ended September 30, 2015. The decrease is due to lower accretion expense on the HTX loan.

Interest and accretion expense for the nine months ended September 30, 2016 was lower by $4,508,667 compared to the nine months ended September 30, 2015. The decrease is primarily due to accretion expense on the Preferred Shares and Notes which terminated with their conversion to common shares on June 4, 2015 pursuant to the terms of the Transaction, partially offset by the Knight Loan which was entered into on April 30, 2015.

Loss on recognition of convertible notes
On January 27, 2015, the Company closed a financing of Notes in the principal amount of $1,500,000, with an original maturity date of January 27, 2016. The Notes accrued interest at a rate of 12% per annum. All or any part of the Notes were convertible at any time after February 20, 2015 at a conversion price per Preferred Share equal to the Preferred Share conversion price at the option of the holder. In the event that a financing occurred, 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 would automatically convert at a price per common share or unit equal to 100% of the price paid by the new investors.

The Notes represented a financial liability that included embedded derivatives related to the conversion feature that required separation. The Company had elected an accounting policy choice to measure the Notes at fair value without separating the embedded derivatives. 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 consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2015.

Fair value (loss) gain on convertible notes
The Notes were re-measured at fair value at each period with any changes recognized in the interim consolidated statements of loss and comprehensive loss. For the nine months ended September 30, 2015 a fair value gain on the Notes of $334,860 was recognized.

Gain on conversion of convertible notes
The principal and accrued interest on the Notes were converted on June 4, 2015 into common shares at $1.50 per common share. On June 4, 2015 the fair value of the Notes were $3,259,885 and the difference between the fair value at June 4, 2015 and the principal value of $1,500,000, or $1,759,885 was recognized in the interim consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2015.

Change in fair value of derivatives
The Preferred Shares when outstanding, represented a financial liability that includes multiple embedded derivatives that required separation. The embedded derivatives were then measured at fair value at each reporting period with any changes recognized in the interim consolidated statements of loss and comprehensive loss.

There were no derivatives related to the Preferred Shares as at September 30, 2016. The change in fair value of derivatives for the nine months ended September 30, 2015 was a gain of $2,086,406.

Tax expense
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 holders of Preferred Shares were paid, or were 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, resulting in the reversal of all the accrued Part VI.1 taxes payable. Part VI.1 tax recovery for the nine months ended September 30, 2015 was $726,071.

Net loss
The Company recorded a net loss for the three months ended September 30, 2016 of $4,061,208 or $0.10 per common share, compared with a net loss of $2,957,179 or $0.08 per common share for the three months ended September 30, 2015. For the three months ended September 30, 2016, the net loss was primarily attributed to the R&D expenses of $2,506,112, the SG&A expenses of $1,273,521 and the interest and accretion expense of $302,122 partially offset by the interest income of $25,270. For the three months ended September 30, 2015, the net loss was attributed to the ongoing R&D expenses of $1,657,700, the SG&A expenses of $1,099,798 and interest and accretion expense of $266,603 partially offset by the interest income of $66,922.

The Company recorded a net loss for the nine months ended September 30, 2016 of $11,538,152 or $0.29 per common share, compared with a net loss of $13,605,845 or $0.74 per common share for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, the net loss was primarily attributed to the R&D expenses of $7,229,806, the SG&A expenses of $3,582,523 and the interest and accretion expense of $840,228 partially offset by the interest income of $123,785. For the nine months ended September 30, 2015, the net loss was attributed to the finance costs related to the listing expense of the Transaction of $2,058,234, the loss on recognition of the Notes of $2,094,565, the interest and accretion expense of $5,348,895 largely related to acceleration of the accretion of the Preferred Shares at the time of their conversion to common shares, the loss in fair value of derivatives of $2,086,406, partially offset by the gain on conversion of the Notes of $1,759,885, the change in fair value of convertible notes of $334,680, gain on extinguishment of long-term debt of $63,568, in addition to the ongoing R&D expenses of $3,598,282, and the SG&A expenses of $5,075,436. SG&A expense includes marketing expense of $2,303,034 related to the Knight loan.

SUMMARY OF QUARTERLY RESULTS

Quarter Ended	Net loss	Basic and diluted net loss per common share
	$	$
September 30, 2016	4,061,208	0.10
June 30, 2016	3,640,725	0.09
March 31, 2016	3,836,219	0.10
December 31, 2015	2,769,896	0.07
September 30, 2015	2,957,179	0.08
June 30, 2015	8,698,717	0.67
March 31, 2015	1,949,949	0.90
December 31, 2014	2,408,512	1.11

It is important to note that historical patterns of revenue and expenditures cannot be taken as an indication of future revenue and expenditures. Net loss has been variable and has been impacted primarily by the availability of funding, the level of our R&D spending, listing costs related to the Transaction, and conversion of the Notes and Preferred Shares into common shares.

The net loss in the third quarter of 2016 of $4,061,208 was primarily attributed to the ongoing R&D expense of $2,506,112 and the SG&A expense of $1,273,521. The net loss in the second quarter of 2016 of $3,640,725 was primarily attributed to the ongoing R&D expense of $2,247,697 and the SG&A expense of $1,182,177. The net loss in the first quarter of 2016 of $3,836,219 was primarily attributed to the ongoing R&D expense of $2,475,997 and the SG&A expense of $1,126,825.

The net loss in the fourth quarter of 2015 of $2,769,896 was primarily attributed to the ongoing R&D expenses of $1,538,566 and the SG&A expenses of $1,010,613. The net loss in the third quarter of 2015 of $2,957,179 was primarily attributed to the ongoing R&D expenses of $1,657,700 and the SG&A expenses of $1,099,798. The net loss in the second quarter of 2015 of $8,698,717 was attributed to the finance costs related to the listing expense of the Transaction of $2,058,234, the interest and accretion expense of $4,764,823 largely related to acceleration of the accretion of the Preferred Shares at the time of their conversion to common shares, partially offset by the gain on conversion of the Notes of $1,759,885, the ongoing R&D expenses of $1,105,381, and the SG&A expenses of $3,393,128. SG&A expense includes marketing expense of $2,303,034 related to the Knight loan. The net loss in the first quarter of 2015 of $1,949,949 was attributed to the ongoing R&D expenses of $835,201, and the finance costs related to the loss on initial recognition of the Notes $2,094,565, partially offset by the change in fair value of derivatives of $1,861,970. Upon closing of the Transaction on June 4, 2015, the number of common shares outstanding increased significantly, resulting in a lower loss per share in the subsequent periods.

The net loss in the fourth quarter of 2014 of $2,408,512 was attributed to the SG&A expenses of $1,018,906, the ongoing R&D expenses of $879,062, and the finance costs related to the Preferred Shares and long-term debt of $521,329. The Company incurred additional SG&A expenses in the fourth quarter of 2014 related to the adoption of IFRS in the preparation of audited financial statements, increased legal costs related to the Transaction discussed above and an increase in the number of employees.

LIQUIDITY AND CAPITAL RESOURCES

	Nine months ended			
	September 30, 2016	September 30, 2015	Change	
	$	$	$	%
Cash flows used in operating activities	(9,723,000)	(5,225,687)	(4,497,313)	86%
Cash flows provided by (used in) investing activities	9,029,208	(9,001,239)	18,030,447	-200%
Cash flows provided by (used in) financing activities	(261,350)	27,099,510	(27,360,860)	-101%
Increase (decrease) in cash	(955,142)	12,872,584	(13,827,726)	-107%
Cash - beginning of period	10,522,520	406,495	10,116,025	2489%
Cash - end of period	9,567,378	13,279,079		

The Company had cash and short-term investments of $9,567,378 as at September 30, 2016 compared to $20,522,520 as at December 31, 2015. The decrease in cash and short-term investments during the nine months ended September 30, 2016 is mainly a result of the cash used in operating activities.

For the nine months ended September 30, 2016, net cash flows used in operating activities increased to $9,723,000 as compared to net cash flows used in operating activities for the nine months ended September 30, 2015 of $5,225,687. The September 30, 2016 increase was primarily due to the preparations for an IDE submission and a Pivotal Trial in approximately 15 clinical sites, designed to support a 510(k) submission in the United States to provide a pathway for Class II classification for the TULSA-PRO™ system. The number of employees also increased. For the nine months ended September 30, 2016 and September 30, 2015, R&D expense was $7,229,806 and $3,598,282, respectively.

As an R&D company, Profound may claim investment tax credits from various levels of government related to the Canadian Federal Scientific Research & Experimental Development ("SR&ED") program. Eligible SR&ED expenses include salaries for employees involved in SR&ED, cost of materials, third party contract services and overhead expenditures. As of April 29, 2015, the date of the amalgamation agreement which formed a component of the Transaction, the Company is no longer eligible for the enhanced refundable investment tax credits, but will be eligible for the refundable Ontario innovation tax credit. Realization of SR&ED amounts is subject to review and approval by the tax authorities and is based on management's best estimate. The Company expects to receive approximately $198,000 from the tax authorities related to the nine months ended September 30, 2016.

For the nine months ended September 30, 2016, net cash flows provided by investing activities of $9,029,208 related mainly to cash inflow from the sale of short term investments, offset by cash outflows related to purchase of research equipment in support of further optimization of the TULSA-PRO system, ERP implementation, and leasehold improvements at the new office building. For the nine months ended September 30, 2015, net cash flows used in investing activities of $9,001,239 related mainly to the cash acquired in connection with the Transaction, offset by purchase of short term investments and purchase of research equipment in support of further optimization of the TULSA-PRO system.

Net cash flows used in financing activities for the nine months ended September 30, 2016 of $261,350 relate principally to the repayment of Health Technology Exchange and Federal Economic Development Agency loans (collectively the "long-term debt"). Net cash flows provided by financing activities for the nine months ended September 30, 2015 of $27,099,510 relate principally to the issuance of common shares in connection with the private placement for gross proceeds of $24,008,828, the $4,000,000 proceeds from the Knight Loan, the $1,500,000 proceeds from the Notes, partially offset by the $700,000 repayment of the bank loan and $1,657,860 of transaction costs.

Working capital (defined as current assets minus current liabilities) of $6,096,868 as at September 30, 2016 was a decrease of $13,563,458 from the December 31, 2015 working capital of $19,660,326. The decrease was related to cash used in operating, investing and financing activities as described above along with the current liability

classification of certain debt repayments including $1,864,206 for the Knight Loan payment (due in June and September 2017) and $500,000 HTX loan payment which will be due in March 2017.

We expect to satisfy our operating cash and debt payment requirements beyond the next twelve months from cash on hand, through managing operating expense levels, from proceeds of equity and/or debt financings and/or new strategic partnership agreements to fund some or all costs of development.

We will need additional capital beyond the next 12 months to fund any R&D activities and to fund any significant expansion of our operations. Potential sources of capital could include equity and/or debt financings, development agreements or marketing license agreements, the collection of revenues resulting from future commercialization activities and/or new strategic partnership agreements to fund some or all costs of development, although there can be no assurance that we will be able to obtain any such capital on terms or in amounts sufficient to meet our needs or at all. The availability of equity or debt financing will be affected by, among other things, the results of our R&D, our ability to obtain regulatory approvals, the market acceptance of our product, the state of the capital markets generally, strategic alliance agreements and other relevant commercial considerations. In addition, if we raise additional funds by issuing equity securities, our existing security holders will likely experience dilution, and any incurring of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Any failure on our part to raise additional funds on terms favorable to us or at all may require us to significantly change or curtail our current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in our not taking advantage of business opportunities, in the termination or delay of clinical trials for our product, in curtailment of our product development programs designed to identify new products, in the sale or assignment of rights to our technologies, product and/or our inability to file market approval applications at all or in time to competitively market our product.

OUTSTANDING SHARE INFORMATION

The number of common shares outstanding as of September 30, 2016 was 39,485,577, increase of 12,250 shares from December 31, 2015 due to exercise of share options in July. The number of share options outstanding as of September 30, 2016 was 4,135,698, an increase of 728,415 from December 31, 2015 (1,096,555 new options granted, 12,250 share options exercised, and 355,890 forfeited). The number of compensation options outstanding as of September 30, 2016 was 576,235, reduction of 73,333 from December 31, 2015 due to forfeiture of Mira IV compensation options.

OFF BALANCE SHEET ARRANGEMENTS

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	2,892,339
	5,297,770

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

RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2016 the Company did not enter any material transactions with related parties.

Details of the transactions between the Company, key management and other related parties are disclosed below. Key management includes the Company's directors and senior management. The remuneration of directors and senior management for the three and nine months ended September 30, 2016 and September 30, 2015 were as follows:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	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
	362,362	810,870	1,264,141	1,545,302

For the three months ended September 30, 2016, negative directors' fees of $47,713 relates to two directors declining cash compensation which was accrued earlier and reversed in the period.

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

SUBSEQUENT EVENT

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