Profound Medical Corp.

Interim Condensed Consolidated Financial Statements
(Unaudited)
March 31, 2016

Profound Medical Corp.

Interim Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2016 $	December 31, 2015 $
Assets		
Current assets		
Cash	6,983,664	10,522,520
Short-term investment (note 3)	10,000,000	10,000,000
HST receivable and other assets	145,373	92,479
Investment tax credits receivable	228,000	173,000
Prepaid expenses and deposits	371,314	139,305
	17,728,351	20,927,304
Property and equipment	255,551	229,112
Intangible assets	74,051	32,500
	18,057,953	21,188,916
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,417,021	980,278
Long-term debt (note 5)	586,700	286,700
	2,003,721	1,266,978
Long-term debt (note 5)	5,305,074	5,560,674
Other liability (note 5)	415,700	397,814
	7,724,495	7,225,466
Shareholders' Equity		
Share capital	67,082,821	67,082,821
Contributed surplus	2,211,304	2,002,190
Accumulated other comprehensive loss	(2,887)	-
Deficit	(58,957,780)	(55,121,561)
	10,333,458	13,963,450
	18,057,953	21,188,916

Commitments and contingencies (note 13)

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

Profound Medical Corp.

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

	Three months ended March 31, 2016 $	Three months ended March 31, 2015 $
Expenses		
Research and development (note 8)	2,475,997	835,201
Selling, general and administrative (note 9)	1,126,825	582,510
Total operating expenses	3,602,822	1,417,711
Finance costs - net		
Preferred share dividend expense (note 6)	-	287,098
Interest and accretion expense	283,961	317,469
Loss on recognition of convertible notes (note 4)	-	2,094,565
Fair value gain on convertible notes (note 4)	-	(370,073)
Interest income	(50,564)	(7,771)
Change in fair value of derivatives (note 6)	-	(1,861,970)
Total finance costs	233,397	459,318
Loss before income taxes	3,836,219	1,877,029
Part VI.1 tax expense (note 10)	-	72,920
Net loss for the period	3,836,219	1,949,949
Item that may be reclassified to profit or loss		
Foreign currency translation adjustment	2,887	-
Net loss and comprehensive loss for the period	3,839,106	1,949,949
Basic and diluted weighted average shares outstanding (note 11)	39,473,327	2,166,766
Basic and diluted net loss per common share (note 11)	$0.10	$0.90

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

Profound Medical Corp.

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

	Number of shares	Share capital $	Contributed surplus $	Deficit $	Accumulated other comprehensive loss $	Total $
Balance - January 1, 2015	2,166,766	39,487	765,612	(38,745,820)	-	(37,940,721)
Net loss for the period	-	-	-	(1,949,949)	-	(1,949,949)
Share-based payments	-	-	51,314	-	-	51,314
Balance - March 31, 2015	2,166,766	39,487	816,926	(40,695,769)	-	(39,839,356)
Balance - January 1, 2016	39,473,327	67,082,821	2,002,190	(55,121,561)	-	13,963,450
Net loss for the period	-	-	-	(3,836,219)	-	(3,836,219)
Foreign currency translation adjustment	-	-	-	-	(2,887)	(2,887)
Share-based payments	-	-	209,114	-	-	209,114
Balance - March 31, 2016	39,473,327	67,082,821	2,211,304	(58,957,780)	(2,887)	10,333,458

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

Profound Medical Corp.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended March 31, 2016 $	Three months ended March 31, 2015 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(3,836,219)	(1,949,949)
Depreciation of property and equipment	25,316	22,866
Amortization of intangible assets	625	625
Preferred share dividend expense	-	287,098
Share-based compensation	209,114	51,314
Loss on recognition of convertible note	-	2,094,565
Fair value gain on convertible note	-	(370,073)
Change in fair value of derivatives	-	(1,861,970)
Non-cash interest and accretion expense	283,961	317,469
Net change in non-cash working capital balances		
Prepaid expenses and deposits	(232,009)	(40,329)
Accounts payable and accrued liabilities	433,856	245,149
Taxes payable	-	72,920
Investment tax credits receivable	(55,000)	435,595
HST receivable and other assets	(52,894)	47,162
	(3,223,250)	(647,558)
Investing activities		
Purchase of intangible assets	(42,176)	-
Purchase of property and equipment	(51,755)	(65,596)
	(93,931)	(65,596)
Financing activities		
Proceeds from convertible notes	-	1,500,000
Repayment of long-term debt	(221,675)	-
Repayment of bank loan	-	(700,000)
Interest paid	-	(6,041)
	(221,675)	793,959
(Decrease) increase in cash during the period	(3,538,856)	80,805
Cash - Beginning of period	10,522,520	406,495
Cash - End of period	6,983,664	487,300

The accompanying notes are an integral part of these interim condensed 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 as Mira IV Acquisition Corp. (Mira IV) and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange (the Exchange).

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

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

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

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

2 Basis of preparation and summary of significant accounting policies

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

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 4, 2016.

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

The accounting policies adopted are consistent with those of the previous financial year. Amendments to IFRS effective for the financial year ending December 31, 2016 did not have a material impact on the company.

3 Short-term investment

The short-term investment consists of guaranteed investment certificates with maturities of three months to one year, and liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. The objectives for holding short-term investments are to invest excess cash resources in investment vehicles that provide a better rate of return compared to an interest bearing bank account with limited risk to the principal invested.

4 Convertible notes

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

Pursuant to the terms of the Notes and in conjunction with the Transaction (note 1) on June 4, 2015, the principal and accrued interest of the Notes were converted into 1,042,333 common shares at a price of $1.50 per common share and $1,563,500 was transferred to share capital.

On initial recognition, the fair value of the Notes was $3,594,565 and the difference between the fair value and the initial value of $1,500,000, or $2,094,565, was recognized in the interim condensed consolidated statements of loss and comprehensive loss for the three months ended March 31, 2015.

During the three months ended March 31, 2015, the company recognized a change in fair value on the Notes of $370,073.

During the three months ended March 31, 2015, the company recognized interest expense on the Notes of $31,068.

5 Long-term debt

The Federal Economic Development Agency (FedDev) loan is unsecured, non-interest bearing, with total proceeds of $867,000. Repayments of $14,450 commenced on April 1, 2015 followed by 48 monthly instalments of $7,225 from May 1, 2015 to April 1, 2019 and 11 monthly instalments of $45,977 from May 1, 2019 to March 1, 2020. These repayment terms are the result of an amendment to the agreement dated June 2, 2015 and replace the previous repayment terms of 60 monthly installments of $14,450. As at March 31, 2016, the principal balance outstanding on this loan is $773,075 (December 31, 2015 - $794,750).

During the three months ended March 31, 2016, the company recognized $14,539 of interest and accretion expense on this loan (three months ended March 31, 2015 - $16,490).

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

During the three months ended March 31, 2016, the company recognized $38,415 of interest and accretion expense on these loans (three months ended March 31, 2015 - $34,848).

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

	March 31, 2016 $	**December 31, 2015 $**
Balance - Beginning of period	2,150,471	2,079,472
Gain on extinguishment of long-term debt	-	(63,568)
Repayment	(221,675)	(72,250)
Interest and accretion expense	52,954	206,817
Balance - End of period	1,981,750	2,150,471
Less: Current portion	(586,700)	(286,700)
Non-current portion	1,395,050	1,863,771

On April 30, 2015, PMI signed an agreement with Knight Therapeutics Inc. (Knight) to provide a secured loan of $4,000,000 (the Knight Loan) for an initial period of four years with an interest rate of 15% per annum, with payments of interest and principal deferred until June 30, 2017. The company has the option to extend the loan for up to four successive additional 12-month periods subject to certain conditions. The Knight Loan was drawn on as part of the closing of the Transaction (note 1). Repayments commence on June 30, 2017 for a payment of $1,427,258 followed by seven quarterly instalments of $285,714 plus accrued interest from September 30, 2017 to March 31, 2019 and a final instalment of $2,052,603 on June 3, 2019. As part of the agreement, Knight was also granted a royalty of 0.5% on net sales resulting from global sales of the company's product for the duration of the Knight Loan (the royalty). In addition, the company also entered into a distribution, licence and supply agreement with Knight pursuant to which Knight will act as the exclusive distributor of the company's product in Canada for an initial ten-year term, renewable for successive ten-year terms by either party. In connection with these arrangements, the company issued to Knight 4% of the common shares of the company (1,717,450 common shares) after giving effect to the qualifying transaction (the Knight shares).

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

	March 31, 2016 $	December 31, 2015 $
Balance - Beginning of period	3,696,903	-
Cash proceeds on issuance of Knight Loan	-	4,000,000
Embedded derivatives asset	-	1,764
Fair value of Knight shares	-	(2,483,810)
Fair value of royalty	-	(359,016)
Transaction costs	-	(226,049)
Selling, general and administrative expense	-	2,303,034
Interest and accretion expense	213,121	460,980
Balance - End of period	3,910,024	3,696,903

The royalty is initially recorded at fair value and subsequently carried at amortized cost using the effective interest rate method. The initial fair value of the royalty was determined using future revenue forecasts for the term of the loan and a discount rate of 18%. During the three months ended March 31, 2016, the company recognized $17,886 (three months ended March 31, 2015 - $nil) accretion expense on this royalty and the liability as at March 31, 2016 is $415,700 (December 31, 2015 - $397,814).

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

	March 31, 2016 $	December 31, 2015 $
FedDev and HTX loans	1,981,750	2,150,471
Knight loan	3,910,024	3,696,903
Balance - End of period	5,891,774	5,847,374
Less: Current portion	(586,700)	(286,700)
Non-current portion	5,305,074	5,560,674

6 Preferred shares

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

During the three months ended March 31, 2015, the company recognized a change in fair value on the derivatives of $1,861,970, a dividend expense of $287,098 and an accretion expense of $229,022.

7 Share-based payments

Compensation expense related to share options recorded in the interim condensed consolidated statements of loss and comprehensive loss for the three months ended March 31, 2016 was $209,114 (three months ended March 31, 2015 - $51,314).

During the three months ended March 31, 2016, there were no share options granted and 139,223 share options were forfeited.

8 Research and development expenses

	Three months ended March 31, 2016 $	Three months ended March 31, 2015 $
Clinical trial costs	247,932	29,888
Materials	1,018,454	475,930
Consulting fees	160,636	68,014
Contractors	52,936	1,749
Travel	97,960	16,837
Rent	50,104	32,879
Amortization of intangible assets	625	625
Salaries and benefits	834,782	521,525
Other	67,568	25,497
Investment tax credits	(55,000)	(337,743)
	2,475,997	835,201

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).

9 Selling, general and administrative expenses

	Three months ended March 31, 2016 $	Three months ended March 31, 2015 $
Salaries and benefits	328,373	206,082
Professional and consulting fees	371,879	153,539
Share-based compensation	209,114	51,314
Rent	19,645	8,220
Travel	84,635	78,162
Depreciation of property and equipment	25,316	22,866
Office and other	87,863	62,327
	1,126,825	582,510

10 Income taxes

For the periods ended March 31, 2016 and March 31, 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. The average rate used in the three months ended March 31, 2016 was 26.5% (three months ended March 31, 2015 - 26.5%).

If the holders of the preferred shares were paid, or deemed to have been paid, any dividends on such shares, the company would have become liable for the payment of taxes under Part VI.1 of the Income Tax Act (Canada). On conversion of the preferred shares, no dividends were paid or deemed paid. During the three months ended March 31, 2015, the company had recognized $72,920 of income taxes related to Part VI.1 taxes.

11 Loss per share

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Numerator for basic and diluted loss per share available to common shareholders	3,836,219	1,949,949
Denominator for basic and diluted loss per share	39,473,327	2,166,766
Basic and diluted loss per share	$0.10	$0.90

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

Of the 3,268,060 share options and 649,568 compensation options not included in the calculation of diluted loss per share for the period ended March 31, 2016, 1,659,460 were exercisable.

12 Related party transactions

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

	Three months ended March 31, 2016 $	Three months ended March 31, 2015 $
Salaries and employee benefits	244,497	226,002
Directors' fees	41,375	11,351
Share-based compensation	192,587	38,130
	478,459	275,483

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

13 Commitments and contingencies

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

	$
No later than 1 year	346,843
Later than 1 year and no later than 5 years	2,498,761
Later than 5 years	2,603,105
	5,448,709

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

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

14 Segment reporting

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