Profound Medical Corp.

Interim Condensed Consolidated
Financial Statements
(Unaudited)
September 30, 2018

Profound Medical Corp.

Interim Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2018 $	December 31, 2017 $
Assets		
Current assets		
Cash	35,212,269	11,103,223
Trade and other receivables (note 4)	1,141,775	4,251,658
Investment tax credits receivable	420,000	240,000
Inventory (note 5)	3,281,895	1,431,157
Prepaid expenses and deposits	530,977	576,028
	40,586,916	17,602,066
Property and equipment (note 6)	1,308,527	1,726,150
Intangible assets (note 7)	4,295,670	5,141,998
Goodwill	3,409,165	3,409,165
	49,600,278	27,879,379
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,764,887	5,081,704
Deferred revenue	524,815	241,316
Long-term debt (note 9)	129,521	4,701,214
Provisions (note 8)	1,171,977	93,222
Other liabilities (notes 9 and 10)	690,709	534,958
Derivative financial instrument (note 9)	123,552	-
Income taxes payable	165,924	72,779
	5,571,385	10,725,193
Long-term debt (note 9)	11,663,354	443,875
Provisions (note 8)	82,159	988,239
Other liabilities (notes 9 and 10)	1,173,595	1,580,933
	18,490,493	13,738,240
Shareholders' Equity		
Share capital (note 11)	120,932,404	98,365,770
Contributed surplus	16,423,643	6,103,970
Accumulated other comprehensive loss	(71,410)	(57,929)
Deficit	(106,174,852)	(90,270,672)
	31,109,785	14,141,139
	49,600,278	27,879,379

Commitments and contingencies (note 17)

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

Profound Medical Corp.

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

	Three months ended September 30, 2018 $	Three months ended September 30, 2017 $	Nine months ended September 30, 2018 $	Nine months ended September 30, 2017 $
Revenue				
Products	249,548	1,452,773	792,973	2,925,536
Services	54,116	12,639	100,369	88,532
	303,664	1,465,412	893,342	3,014,068
Cost of sales (note 13)	240,686	1,185,674	598,020	1,968,258
Gross profit	62,978	279,738	295,322	1,045,810
Expenses (note 13)				
Research and development - net of investment tax credits	2,577,385	2,812,684	7,442,075	7,113,785
General and administrative	1,765,540	1,631,967	5,305,273	4,478,566
Selling and distribution	896,052	703,783	2,956,179	2,751,435
	5,238,977	5,148,434	15,703,527	14,343,786
Finance costs (note 14)	81,468	659,902	715,037	1,080,038
Finance income	(155,201)	(8,524)	(312,362)	(89,318)
Net finance (income) costs	(73,733)	651,378	402,675	990,720
Loss before income taxes	5,102,266	5,520,074	15,810,880	14,288,696
Income tax expense	32,700	-	93,300	4,653
Net loss attributable to shareholders for the period	5,134,966	5,520,074	15,904,180	14,293,349
Other comprehensive loss (income)				
Item that may be classified to profit or loss				
Foreign currency translation adjustment - net of tax	28,176	(3,674)	13,481	14,522
Net loss and comprehensive loss for the period	5,163,142	5,516,400	15,917,661	14,307,871
Basic and diluted weighted average shares outstanding (note 15)	108,044,656	61,614,117	97,814,500	57,456,823
Basic and diluted net loss per common share (note 15)	0.05	0.09	0.16	0.25

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
(Unaudited)

	Number of shares	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total $
Balance - January 1, 2017	55,305,577	83,272,678	3,000,563	11,316	(71,448,330)	14,836,227
Net loss for the period	-	-	-	-	(14,293,349)	(14,293,349)
Foreign currency translation adjustment - net of tax	-	-	-	(14,522)	-	(14,522)
Exercise of share options	411,800	271,471	(171,170)	-	-	100,301
Share-based compensation (note 12)	-	-	973,336	-	-	973,336
Issuance of common shares on acquisition (note 3)	7,400,000	7,844,000	-	-	-	7,844,000
Issuance of units on bought deal financing	10,000,000	6,998,621	1,936,247	-	-	8,934,868
Balance - September 30, 2017	73,117,377	98,386,770	5,738,976	(3,206)	(85,741,679)	18,380,861
Balance - January 1, 2018	73,117,377	98,365,770	6,103,970	(57,929)	(90,270,672)	14,141,139
Net loss for the period	-	-	-	-	(15,904,180)	(15,904,180)
Foreign currency translation adjustment	-	-	-	(13,481)	-	(13,481)
Exercise of share options	437,562	306,882	(201,626)	-	-	105,256
Share-based compensation (note 12)	-	-	753,549	-	-	753,549
Issuance of units on bought deal financing (note 11)	34,500,000	22,259,752	9,767,750	-	-	32,027,502
Balance - September 30, 2018	108,054,939	120,932,404	16,423,643	(71,410)	(106,174,852)	31,109,785

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

Profound Medical Corp.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30, 2018 $	Nine months ended September 30, 2017 $
Cash provided by (used in)		
Operating activities		
Net loss attributable to shareholders for the period	(15,904,180)	(14,293,349)
Depreciation of property and equipment	416,071	271,225
Amortization of intangible assets	846,328	218,408
Share-based compensation	753,549	973,336
Interest and accretion expense	770,714	1,135,008
Change in deferred rent	26,718	-
Change in fair value of derivative financial instrument	(71,270)	-
Change in fair value of contingent consideration	(106,976)	52,342
Transaction costs related to business acquisition (note 3)	-	716,767
Net change in non-cash working capital balances		
Prepaid expenses and deposits	45,051	55,082
Accounts payable and accrued liabilities	(2,328,746)	2,892,346
Provisions	172,675	685,317
Inventory	(1,850,738)	(645,623)
Investment tax credits receivable	(180,000)	84,000
Trade and other receivables	3,109,883	(2,309,834)
Deferred revenue	283,499	149,298
Customer deposits	-	(259,293)
Income taxes payable	93,145	-
	(13,924,277)	(10,274,970)
Investing activities		
Transaction costs related to business acquisition (note 3)	-	(716,767)
Purchase of intangible assets	-	(34,080)
Purchase of property and equipment	-	(414,949)
	-	(1,165,796)
Financing activities		
Issuance of common shares	34,500,000	10,000,000
Transaction costs paid	(2,472,498)	(748,196)
Proceeds from bank loan	12,500,000	-
Bank loan costs paid	(714,134)	-
Payment of long-term debt and interest	(5,719,845)	(2,429,230)
Payment of other liabilities	(165,456)	(7,742)
Proceeds from share options exercised	105,256	100,301
	38,033,323	6,915,133
Increase (decrease) in cash during the period	24,109,046	(4,525,633)
Cash - Beginning of period	11,103,223	20,833,061
Cash - End of period	35,212,269	16,307,428
Supplemental information		
Intangible asset recoverable included in accounts payable and accrued liabilities	-	(26,684)
Transaction costs included in accounts payable and accrued liabilities	-	316,936

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) were incorporated under the Ontario Business Corporations Act on July 16, 2014. The company is a medical technology company developing a treatment to ablate the prostate gland, a treatment for uterine fibroids and palliative pain treatment for patients with metastatic bone disease.

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

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 (IFRS) as issued by the International Accounting Standards Board (IASB), applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. These interim condensed consolidated financial statements are presented in Canadian dollars and should be read in conjunction with the company's annual financial statements for the year ended December 31, 2017, which were prepared in accordance with IFRS as issued by the IASB.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 8, 2018.

The interim condensed consolidated financial statements were prepared on a going concern basis under the historical cost convention.

The accounting policies adopted are consistent with those of the previous financial year, except as noted below.

A number of new or amended standards became applicable for the current reporting period and the company had to change its accounting policies as a result. The impact of the adoption of these standards and the new accounting policies are disclosed below:

- IFRS 9, Financial Instruments (IFRS 9)

  IFRS 9 replaces the provisions of IAS 39, Financial Instruments - Recognition and Measurement (IAS 39), which relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from January 1, 2018 resulted in changes to the company's accounting policies but did not result in any adjustments.

  The company has one type of financial asset that is subject to IFRS 9's new expected credit loss model, which is trade and other receivables. The company was required to revise its impairment methodology under IFRS 9 for trade and other receivables and this resulted in no adjustments as at January 1, 2018. The company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

On that basis, the loss allowance as at January 1, 2018 and September 30, 2018 is nominal as the company only transacts with hospitals and private clinics and has not incurred any credit losses since revenue began.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, failure to make contractual payments for a period of greater than 120 days past due.

There was no impact on the company's financial liabilities as a result of the adoption of IFRS 9 and no material change to the company's accounting policies for financial liabilities. All historical changes to the company's debt agreements were accounted for as extinguishments under IAS 39, which is consistent with the required treatment under IFRS 9.

Accounting policy applied from January 1, 2018 - financial assets

From January 1, 2018, the company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the company's business model for managing the financial assets and the contractual terms of the cash flows. The company does not currently have any assets measured subsequently at fair value.

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. For trade and other receivables, the company applies the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognized at the time of initial recognition of the receivables.

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

  IFRS 15 amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of IFRS 15 from January 1, 2018 resulted in changes in the company's revenue recognition accounting policy but it did not result in any adjustments. In accordance with the transitional provisions in IFRS 15, the company has adopted the new rules on a full retrospective basis.

Accounting policy

Revenue is recognized when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods or services, generally at the point in time of shipment to or receipt of the products by the customer or when the services are performed. When contracts contain customer acceptance provisions, revenue is recognized on satisfaction of the specific acceptance criteria.

The amount of revenue to be recognized is based on the consideration the company expects to receive in exchange for its goods and services. If a customer contract contains more than one performance obligation, such as installation and ongoing servicing, the consideration is allocated based on the stand-alone selling price of each performance obligation. As the installation of the company's medical device is simple and could be performed by another party, it is accounted for as a separate performance obligation. If a contract includes the installation of the medical device, revenue for the medical device is recognized at a point in time when the hardware is delivered, the legal title has passed and, where applicable, the customer has accepted the medical device. Medical devices may be sold together with other products and services under a single contract. Revenues are recognized on satisfaction of each of the performance obligations in the contract.

Service revenue related to installation and training is recognized over the period in which the services are performed. 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 customer contract.

Under the terms of certain 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 revenue is recognized net of the consideration due to the partner.

Accounting standards issued but not yet adopted

- IFRS 16, Leases (IFRS 16)

  On January 13, 2016, the IASB published a new standard, IFRS 16. The new standard will eliminate the distinction between operating and finance leases and will bring most leases onto 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. As the company has significant contractual obligations in the form of operating leases under current IFRS, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and changes to the timing of recognition of expenses associated with the lease arrangements. The company is analyzing the new standard to determine its impact on the company's consolidated balance sheets and consolidated statements of loss and comprehensive loss. The company expects to adopt IFRS 16 using the modified retrospective transition method. Further, the company currently expects to apply the following practical expedients: (i) grandfather the assessment of which transactions are leases; (ii) recognition exemption of short-term leases; and (iii) recognition exemption leases of low-value items.

- International Financial Reporting Interpretations Committee (IFRIC 23), Uncertainty over Income Tax Treatments (IFRIC 23)

  In June 2017, the IASB issued IFRIC 23, with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The extent of the impact of the adoption of IFRIC 23 has not yet been determined.

3 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). Under the terms of the agreement, Philips transferred its Sonalleve assets to the company for an upfront consideration of 7,400,000 common shares of the company. The agreement includes certain contingent consideration payments payable monthly in euros tied to future revenue levels of the Sonalleve 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 part of closing the agreement, the company committed to repay all amounts outstanding under the Knight Loan (note 9) on or before December 31, 2018. The Knight Loan was repaid on July 25, 2018.

The non-exclusive strategic sales relationship with Philips was expanded to include distribution of Sonalleve. 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 contingent consideration (note 10) 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 levels being reached; and a discount rate of 15%. During the three-month and nine-month periods ended September 30, 2018, the change in fair value of the contingent consideration was a gain of $82,430 and $106,976, respectively.

4 Trade and other receivables

The trade and other receivables balance is comprised of the following:

	September 30, 2018 $	December 31, 2017 $
Trade receivables	634,472	3,971,768
Indirect tax receivables	450,929	279,890
Interest receivable	56,374	-
	1,141,775	4,251,658

Trade receivables include the gross revenue amount billed to customers and certain amounts that are included in deferred revenue. Included in accounts payable and accrued liabilities is an amount of $nil (December 31, 2017 - $2,534,259) payable to the same counterparty as the corresponding trade receivable balance of $nil (December 31, 2017 - $3,505,423) as there is no legal right of offset with respect to the receivable and payable balances.

5 Inventory

	September 30, 2018 $	December 31, 2017 $
Raw materials	534,293	715,193
Finished goods	2,817,229	799,589
Inventory provision	(69,627)	(83,625)
	3,281,895	1,431,157

During the three and nine months ended September 30, 2018, $291,252 and $621,948, respectively (three and nine months ended September 30, 2017 - $1,112,579 and $1,463,726, respectively), of inventory was recognized in cost of sales. The company increased its inventory provision by $26,551 and decreased it by $13,998 during the three and nine months ended September 30, 2018, respectively (three and nine months ended September 30, 2017 - increase of $16,867 and $96,693, respectively). There were no other inventory write-downs charged to cost of sales during the period ended September 30, 2018.

6 Property and equipment

Property and equipment consist of the following:

	Furniture and fittings $	Research and manufacturing equipment $	Leasehold improvements $	Computer equipment $	Computer software $	Total $
As at January 1, 2018						
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
Nine months ended September 30, 2018						
Opening net book value	134,883	947,588	605,789	37,890	-	1,726,150
Foreign exchange	-	(1,552)	-	-	-	(1,552)
Depreciation	(28,739)	(303,791)	(51,961)	(31,580)	-	(416,071)
Closing net book value	106,144	642,245	553,828	6,310	-	1,308,527
As at September 30, 2018						
Cost	235,169	1,386,692	718,742	212,541	176,462	2,729,606
Accumulated depreciation	(129,025)	(744,447)	(164,914)	(206,231)	(176,462)	(1,421,079)
Net book value	106,144	642,245	553,828	6,310	-	1,308,527

7 Intangible assets

Intangible assets consist of the following:

	Exclusive licence agreement $	Software $	Proprietary technology $	Brand $	Total $
As at January 1, 2018					
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
Nine months ended September 20, 2018					
Opening net book value	27,500	189,766	4,115,187	809,545	5,141,998
Amortization	(1,875)	(38,588)	(673,394)	(132,471)	(846,328)
Closing net book value	25,625	151,178	3,441,793	677,074	4,295,670
As at September 30, 2018					
Cost	50,000	257,254	4,489,295	883,140	5,679,689
Accumulated amortization	(24,375)	(106,076)	(1,047,502)	(206,066)	(1,384,019)
Net book value	25,625	151,178	3,441,793	677,074	4,295,670

8 Provisions

	Asset retirement obligation $	Revenue share obligation $	Warranty provision $	Total $
As at January 1, 2018	44,204	921,906	115,351	1,081,461
Additions	-	146,917	21,598	168,515
Expiry	-	-	(49,679)	(49,679)
Foreign exchange	-	50,303	(247)	50,057
Accretion expense	3,783	-	-	3,783
As at September 30, 2018	47,987	1,119,126	87,023	1,254,136
Less: Current portion	-	1,119,126	52,851	1,171,977
Non-current portion	47,987	-	34,172	82,159

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 $19,067. The change in the amount has been included in selling and distribution expenses in the interim condensed 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.

9 Long-term debt

A summary of long-term debt is as follows:

	September 30, 2018 $	December 31, 2017 $
CIBC loan	11,792,875	-
FedDev and HTX loans	-	1,607,195
Knight Loan	-	3,537,894
Balance - End of period	11,792,875	5,145,089
Less: Current portion	129,521	4,701,214
Non-current portion	11,663,354	443,875

The Federal Economic Development Agency (FedDev) loan was unsecured and non-interest bearing, with total proceeds of $867,000, with the final repayment of $563,550 made on July 25, 2018.

During the three and nine months ended September 30, 2018, the company recognized $nil and $90,775, respectively, of interest and accretion expense on this loan (three and nine months ended September 30, 2017 - $13,408 and $40,820, respectively).

The Health Technology Exchange (HTX) loans with total proceeds of $1,500,000 were unsecured, bearing interest at 4.50% per annum, with the final repayment of $1,094,698 including accrued interest made on March 31, 2018.

During the three and nine months ended September 30, 2018, the company recognized $nil and $18,078, respectively, of interest and accretion expense on these loans (three and nine months ended September 30, 2017 - $25,270 and $86,084, respectively).

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

	September 30, 2018 $	December 31, 2017 $
Balance - Beginning of period	1,607,195	2,027,893
Repayment	(1,716,048)	(586,700)
Interest and accretion expense	108,853	166,002
Balance - End of period	-	1,607,195
Less: Current portion	-	1,163,320
Non-current portion	-	443,875

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. 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 until May 20, 2019 (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). On July 25, 2018, the full amount of the Knight Loan, including prepayment fees, was repaid for a total payment of $3,188,023.

A reconciliation of the Knight Loan balance is as follows:

	September 30, 2018 $	December 31, 2017 $
Balance - Beginning of period	3,537,894	4,609,983
Repayment	(4,003,797)	(2,290,350)
Interest and accretion expense	465,903	1,218,261
Balance - End of period	-	3,537,894
Less: Current portion	-	3,537,894
Non-current portion	-	-

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 three and nine months ended September 30, 2018, the company revised the fair value of the royalty, using future revenue forecasts and a discount rate of 18%, and recognized an interest accretion recovery of $2,490 and $5,873, respectively (three and nine months ended September 30, 2017 - interest accretion expense of $41,388 and recovery of $32,914, respectively). This liability is included within other liabilities on the interim condensed consolidated balance sheets.

On July 30, 2018, the company signed a term loan agreement with CIBC Innovation Banking (CIBC) to provide a secured loan for total initial gross proceeds of $12,500,000 maturing on July 29, 2022 with an interest rate based on prime plus 2.5%. The company is required to make interest only payments until October 31, 2019 and monthly repayments on the principal of $378,788 plus accrued interest will commence on October 31, 2019. All obligations of the company under the term loan agreement are guaranteed by current and future subsidiaries of the company and include security of first priority interests in the assets of the company and its subsidiaries. The company has the ability to draw an additional $6,250,000 subject to the achievement of certain financing and product development milestones.

	September 30, 2018 $
Balance - Beginning of period	-
Proceeds received	12,500,000
Transaction costs	(908,956)
Interest and accretion expense	201,831
Balance - End of period	11,792,875
Less: Current portion	129,521
Non-current portion	11,663,354

In connection with this term loan agreement, the company also issued 321,714 common share purchase warrants to CIBC, with each warrant entitling the holder to acquire one common share at a price of $0.97 per common share until the date that is 60 months from the closing of the term loan agreement, with a cashless exercise feature. The cashless exercise feature causes the conversion ratio to be variable and the warrants are therefore classified as a financial liability. Gains and losses on the warrants are recorded within finance costs on the interim condensed consolidated statements of loss and comprehensive loss. A pricing model with observable market based inputs was used to estimate the fair value of the warrants issued. The estimated fair value of the warrants at July 31, 2018 and September 30, 2018 was $194,822 and $123,552, respectively. The variables used to determine the fair values are as follows:

	September 30, 2018	**July 31, 2018**
Share price	$0.72	$1.00
Volatility	72%	72%
Expected life of warrants	4.83 years	5 years
Risk-free interest rate	2.30%	2.19%
Dividend yield	-	-

10 Other liabilities

	Knight royalty payable $ (note 9)	Contingent consideration $ (note 3)	Deferred rent $	Total $
As at January 1, 2018	96,894	1,734,050	284,947	2,115,891
Additions	-	-	26,718	26,718
Amounts paid	(12,400)	(153,056)	-	(165,456)
Change in fair value	-	(106,976)	-	(106,976)
Accretion recovery	(5,873)	-	-	(5,873)
As at September 30, 2018	78,621	1,474,018	311,665	1,864,304
Less: Current portion	78,621	612,088	-	690,709
Non-current portion	-	861,930	311,665	1,173,595

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 until May 20, 2019.

Deferred rent

The deferred rent obligation is related to the company's straight-line rent accrual for its current premises.

11 Share capital

Common shares

Authorized
Unlimited common shares

Issued and outstanding (with no par value)

	2018 $	2017 $
108,054,939 (December 31, 2017 - 73,117,377) common shares	120,932,404	98,365,770

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 ($32,027,502, 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 60 months from the closing of the bought deal financing.

Warrants

As a result of the March 20, 2018 bought deal financing, 17,250,000 warrants were issued.

As a result of the July 30, 2018 CIBC loan, 321,714 warrants were issued (note 9).

A summary of warrants outstanding is shown below:

	Number of warrants	Weighted average exercise price $	Weighted average remaining contractual life (years)
Balance - January 1, 2018	5,000,000	1.40	1.98
Granted	17,571,714	1.39	4.48
Balance - September 30, 2018	22,571,714	1.39	3.92

The company estimated the fair value of the warrants granted as a result of the March 20, 2018 bought deal financing using the Black-Scholes option pricing model with the following assumptions:

	March 20, 2018
Share price on date of issuance	$1.06
Volatility	71%
Expected life of warrants	5 years
Risk free interest rate	2.00%
Dividend yield	-

Due to the absence of company specific volatility rates for the expected life of the warrants, the company chose comparable companies in the medical device industry. The fair value of the warrants issued as part of the March 20, 2018 bought deal financing was $9,767,750, or $0.57 per warrant, and was recorded in contributed surplus.

12 Share-based compensation

Compensation expense related to share options for the three and nine months ended September 30, 2018 was $276,618 and $753,549, respectively (three and nine months ended September 30, 2017 - $422,311 and $973,336, respectively).

A summary of the share option changes during the period and the total number of share options outstanding is outlined below:

	$	Weighted average exercise price $
Balance - January 1, 2018	5,318,279	1.09
Granted	1,966,500	1.06
Exercised	(436,562)	0.24
Forfeited	(625,438)	1.13
Balance - September 30, 2018	6,222,779	1.14

The following table summarizes information about the share options outstanding as at September 30, 2018:

Exercise price $	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
0.24	213,000	3.94	213,000
0.30	18,000	0.66	18,000
0.85	351,000	9.13	-
0.93	900,000	9.90	-
0.97	66,000	8.57	44,000
0.99	28,000	9.50	-
1.02	115,500	9.72	-
1.10	1,971,724	8.20	874,178
1.19	918,000	9.65	-
1.35	132,500	7.90	98,587
1.46	934,055	7.90	486,487
1.50	575,000	6.92	436,366
	6,222,779	8.17	2,170,618

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

	August 23, 2018	June 15, 2018	May 22, 2018	March 28, 2018
Expected volatility	70%	83%	82%	96%
Expected life of share options	6 years	6 years	6 years	6 years
Risk free interest rate	2.25%	2.19%	2.30%	2.14%
Dividend yield	-	-	-	-
Number of share options issued	900,000	115,500	918,000	33,000

13 Nature of expenses

	Three months ended September 30, 2018 $	Three months ended September 30, 2017 $	Nine months ended September 30, 2018 $	Nine months ended September 30, 2017 $
Production and manufacturing costs	92,667	1,145,275	330,257	1,638,102
Salaries and benefits	2,270,568	1,934,815	7,366,547	5,123,185
Consulting fees	1,215,651	1,643,210	3,767,734	4,886,191
Research and development expenses	315,649	329,120	635,904	804,141
Sales and marketing expenses	229,130	222,967	915,015	1,388,982
Amortization and depreciation	414,013	346,004	1,262,399	489,633
Share-based compensation	276,618	422,311	753,549	973,336
Rent	189,381	187,134	538,122	496,426
Other expenses	475,986	103,272	732,020	512,048
	5,479,663	6,334,108	16,301,547	16,312,044

14 Finance costs

	Three months ended September 30, 2018 $	Three months ended September 30, 2017 $	Nine months ended September 30, 2018 $	Nine months ended September 30, 2017 $
Knight Loan (note 9)	49,158	38,678	465,903	126,904
Change in fair value of contingent consideration (note 10)	(82,430)	526,139	(106,976)	1,037,627
HTX and FedDev loans (note 9)	-	41,388	108,853	(32,914)
CIBC loan (note 9)	201,831	-	201,831	-
Royalty interest accretion (recovery) (note 9)	(2,490)	52,342	(5,873)	52,342
Change in fair value of derivative financial instrument (note 9)	(71,270)	-	(71,270)	-
Provisions (note 8)	1,295	1,161	3,783	3,391
Foreign exchange (gain) loss	(14,626)	194	118,786	(107,312)
	81,468	659,902	715,037	1,080,038

15 Loss per common share

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Net loss for the period	$5,134,966	$5,520,074	$15,904,180	$14,293,349
Denominator for basic and diluted loss per share	108,044,656	61,614,117	97,814,500	57,456,823
Basic and diluted loss per share	$0.05	$0.09	$0.16	$0.25

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

Of the 6,222,779 share options and 22,571,714 warrants not included in the calculation of diluted loss per common share for the period ended September 30, 2018, 24,742,332 were exercisable (September 30, 2017 - 6,430,277).

16 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:

	Three months ended September 30, 2018 $	Three months ended September 30, 2017 $	Nine months ended September 30, 2018 $	Nine months ended September 30, 2017 $
Salaries and employee benefits	417,585	239,386	1,326,437	786,803
Termination benefits	-	-	114,750	138,125
Directors' fees	35,600	19,740	75,632	61,729
Share-based compensation	257,153	400,649	658,749	897,203
	710,338	659,775	2,175,568	1,883,860

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

17 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 office space and took possession of this office space effective July 1, 2016. Included in prepaid expenses and deposits as at September 30, 2018 is an amount of $240,000 related to prepaid rent for this lease that is drawn down at $10,000 per month starting October 1, 2016. The future minimum obligations are as follows:

	$
No later than 1 year	508,070
Later than 1 year and no later than 5 years	2,256,649
Later than 5 years	1,735,404
	4,500,123

In 2016, the company signed an agreement that includes revenue sharing with a minimum amount payable of US$3,500,000 over a period until the end of 2020, less amounts paid (note 8).

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 certain lenders and underwriters in relation to certain debt and equity offerings 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 lenders or their affiliates against certain liabilities.

18 Segment information

The company's operations are categorized into one industry segment, which is medical technology focused on magnetic resonance guided ablation procedures. The company had historically been managed in Canada until the acquisition of Sonalleve, as a result of which the company is now managed geographically in Canada, Germany and Finland.

For the three-month period ended September 30, 2018:

	Canada $	Germany $	Finland $	Total $
Revenue	12,204	291,460	-	303,664
Cost of sales	-	240,686	-	240,686
Gross profit	12,204	50,774	-	62,978
Expenses				
Research and development	1,916,179	-	661,206	2,577,385
General and administrative	1,577,917	-	187,623	1,765,540
Selling and distribution	514,603	356,328	25,121	896,052
	4,008,699	356,328	873,950	5,238,977
Segment loss	3,996,495	305,554	873,950	5,175,999
Net finance income				(73,733)
Loss for the period before income taxes				5,102,266

For the three-month period ended September 30, 2017:

	Canada $	Germany $	Finland $	Total $
Revenue	1,438,913	26,499	-	1,465,412
Cost of sales	1,167,125	18,549	-	1,185,674
Gross profit	271,788	7,950	-	279,738
Expenses				
Research and development	2,500,254	-	312,430	2,812,684
General and administrative	1,518,065	-	113,902	1,631,967
Selling and distribution	203,782	445,326	54,675	703,783
	4,222,101	445,326	481,007	5,148,434
Segment loss	3,950,313	437,376	481,007	4,868,696
Net finance costs				651,378
Net loss for the period				5,520,074

For the nine-month period ended September 30, 2018:

	Canada $	Germany $	Finland $	Total $
Revenue				
Product	-	792,973	-	792,973
Services	24,323	76,046	-	100,369
	24,323	869,019	-	893,342
Cost of sales	-	598,020	-	598,020
Gross profit	24,323	270,999	-	295,322
Expenses				
Research and development	5,751,490	-	1,690,585	7,442,075
General and administrative	4,937,112	-	368,161	5,305,273
Selling and distribution	1,518,201	1,082,652	355,326	2,956,179
	12,206,803	1,082,652	2,414,072	15,703,527
Segment loss	12,182,480	811,653	2,414,072	15,408,205
Net finance costs				402,675
Loss for the period before income taxes				15,810,880

Other financial information for the three-month period ended September 30, 2018:

	Canada $	Germany $	Finland $	Total $
Amortization of intangible assets	282,109	-	-	282,109
Depreciation of property and equipment	69,624	626	61,654	131,904

Other financial information for the three-month period ended September 30, 2017:

	Canada $	Germany $	Finland $	Total $
Amortization of intangible assets	218,408	-	-	218,408
Depreciation of property and equipment	188,909	2,544	79,772	271,225

Other financial information for the nine-month period ended September 30, 2018:

	Canada $	Germany $	Finland $	Total $
Amortization of intangible assets	846,328	-	-	846,328
Depreciation of property and equipment	227,354	2,485	186,232	416,071

Other financial information by segment as at September 30, 2018:

	Canada $	Germany $	Finland $	Total $
Total assets	45,914,406	1,067,827	2,618,045	49,600,278
Goodwill and intangible assets	7,704,835	-	-	7,704,835
Property and equipment	866,035	880	441,612	1,308,527

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