

**Profound Medical Corp.**  
(formerly Mira IV Acquisition Corp.)

Interim Condensed Consolidated Financial  
Statements  
(Unaudited)  
**June 30, 2015**

# Profound Medical Corp.

## Interim Condensed Consolidated Balance Sheets (Unaudited)

	June 30, 2015 \$	December 31, 2014 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	25,959,227	406,495
HST receivable and other assets	244,000	102,703
Investment tax credits receivable	480,837	1,274,899
Deferred costs	-	565,632
Prepaid expenses	60,889	47,782
	26,744,953	2,397,511
<b>Derivatives</b>	1,754	-
<b>Property and equipment</b>	231,919	178,628
<b>Intangible assets</b>	33,750	35,000
	27,012,376	2,611,139
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,926,166	1,619,012
Bank loan	-	700,000
Long-term debt (note 5)	86,700	130,050
Preferred shares (note 6)	-	9,707,445
Derivatives (note 6)	-	25,719,860
	2,012,866	37,876,367
<b>Taxes payable</b> (note 11)	-	726,071
<b>Other liability</b> (note 5)	364,318	-
<b>Long-term debt</b> (note 5)	5,294,800	1,949,422
	7,671,984	40,551,860
<b>Shareholders' Equity (Deficiency)</b>		
<b>Share capital</b> (note 7)	67,066,468	39,487
<b>Contributed surplus</b>	1,668,410	765,612
<b>Deficit</b>	(49,394,486)	(38,745,820)
	19,340,392	(37,940,721)
	27,012,376	2,611,139

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 June 30, 2015 \$	Three months ended June 30, 2014 \$	Six months ended June 30, 2015 \$	Six months ended June 30, 2014 \$
<b>Expenses</b>				
Research and development (note 9)	1,105,381	480,842	1,940,582	973,952
General and administrative (note 10)	3,393,128	338,380	3,975,638	660,101
<b>Total operating expenses</b>	<b>4,498,509</b>	<b>819,222</b>	<b>5,916,220</b>	<b>1,634,053</b>
<b>Government grants</b>	<b>-</b>	<b>(74,573)</b>	<b>-</b>	<b>(74,573)</b>
<b>Finance costs - net</b>				
Preferred share dividend expense (note 6)	194,256	277,396	481,354	535,320
Interest and accretion expense	4,764,823	238,859	5,082,292	471,417
Interest income	(5,618)	(3,734)	(13,389)	(5,402)
Listing expense (note 3)	2,058,234	-	2,058,234	-
Loss on recognition of convertible notes (note 4)	-	-	2,094,565	-
Change in fair value of convertible notes (note 4)	35,393	-	(334,680)	-
Gain on conversion of convertible notes (note 4)	(1,759,885)	-	(1,759,885)	-
Gain on extinguishment of long- term debt (note 5)	(63,568)	-	(63,568)	-
Change in fair value of derivatives (notes 5 and 6)	(224,436)	2,607,042	(2,086,406)	1,574,363
<b>Total finance costs</b>	<b>4,999,199</b>	<b>3,119,563</b>	<b>5,458,517</b>	<b>2,575,698</b>
<b>Loss before income taxes</b>	<b>9,497,708</b>	<b>3,864,212</b>	<b>11,374,737</b>	<b>4,135,178</b>
<b>Part VI.1 tax (recovery) expense</b> (note 11)	<b>(798,991)</b>	<b>67,234</b>	<b>(726,071)</b>	<b>132,594</b>
<b>Net loss and comprehensive loss for the period</b>	<b>8,698,717</b>	<b>3,931,446</b>	<b>10,648,666</b>	<b>4,267,772</b>
<b>Basic and diluted weighted average shares outstanding</b> (note 12)	<b>12,935,263</b>	<b>2,166,766</b>	<b>7,551,015</b>	<b>2,166,766</b>
<b>Basic and diluted net loss per common share</b> (note 12)	<b>0.67</b>	<b>1.81</b>	<b>1.41</b>	<b>1.97</b>

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

# Profound Medical Corp.

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

	Number of shares	Share capital \$ (note 7)	Contributed surplus \$	Deficit \$	Total \$
<b>Balance - January 1, 2014</b>	2,166,766	39,487	575,279	(30,541,411)	(29,926,645)
Share-based payments	-	-	91,003	-	91,003
Net loss and comprehensive loss for the period	-	-	-	(4,267,772)	(4,267,772)
<b>Balance - June 30, 2014</b>	<u>2,166,766</u>	<u>39,487</u>	<u>666,282</u>	<u>(34,809,183)</u>	<u>(34,103,414)</u>
<b>Balance - January 1, 2015</b>	2,166,766	39,487	765,612	(38,745,820)	(37,940,721)
Issuance of common shares to Profound shareholders (note 7)	2,200,009	3,300,000	-	-	3,300,000
Issuance of common shares in connection with private placement net of transaction costs (note 7)	16,005,885	21,010,588	-	-	21,010,588
Issuance of common shares upon conversion of preferred shares (note 6)	16,309,894	38,669,083	-	-	38,669,083
Issuance of common shares upon conversion of convertible notes (note 4)	1,042,333	1,563,500	-	-	1,563,500
Issuance of common shares in connection with the Knight loan (note 5)	1,717,450	2,483,810	-	-	2,483,810
Fair value of Profound compensation and share options (note 3)	-	-	145,839	-	145,839
Fair value of compensation options (note 8)	-	-	465,072	-	465,072
Share-based payments	-	-	291,887	-	291,887
Net loss and comprehensive loss for the period	-	-	-	(10,648,666)	(10,648,666)
<b>Balance - June 30, 2015</b>	<u>39,442,337</u>	<u>67,066,468</u>	<u>1,668,410</u>	<u>(49,394,486)</u>	<u>19,340,392</u>

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)

	Six months ended June 30, 2015 \$	Six months ended June 30, 2014 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	(10,648,666)	(4,267,772)
Depreciation of property and equipment	50,682	35,015
Amortization of intangible assets	1,250	1,250
Preferred share dividend expense	481,354	535,320
Share-based compensation	291,887	91,003
Loss on recognition of convertible notes	2,094,565	-
Gain on extinguishment of long-term debt	(63,568)	-
Change in fair value of convertible notes	(334,680)	-
Change in fair value of derivatives	(2,086,406)	1,574,363
General and administrative expense	2,303,034	-
Listing expense	2,058,234	-
Government grant - long term debt	-	(54,573)
Gain on conversion of convertible notes	(1,759,885)	-
Interest and accretion expense	5,082,292	471,417
Net change in non-cash working capital balances		
Prepaid expenses	(10,074)	10,596
Accounts payable and accrued liabilities	(544,764)	(34,609)
Taxes payable	(726,071)	132,594
Investment tax credits receivable	794,062	(275,748)
HST receivable and other assets	85,740	(9,244)
	(2,931,014)	(1,790,388)
<b>Investing activities</b>		
Cash acquired from Profound	1,157,535	-
Purchase of property and equipment	(103,973)	(13,762)
	1,053,562	(13,762)
<b>Financing activities</b>		
Proceeds from convertible notes	1,500,000	-
Issuance of Series A preferred shares	-	1,750,000
Issuance of common shares	24,008,828	-
Proceeds from long-term debt	4,000,000	261,700
Payment of long-term debt	(28,900)	-
Transaction costs paid	(1,341,667)	-
Repayment of bank loan	(700,000)	(500,000)
Interest paid	(8,077)	(13,854)
	27,430,184	1,497,846
<b>Increase (decrease) in cash during the period</b>	25,552,732	(306,304)
<b>Cash - Beginning of period</b>	406,495	605,896
<b>Cash - End of period</b>	25,959,227	299,592
<b>Supplemental information</b>		
Transaction costs included in accounts payable and accrued liabilities	851,918	-

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

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## **Notes to Interim Condensed Consolidated Financial Statements**

(Unaudited)

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### **1 Description of business**

Profound Medical Corp. (Profound) and its subsidiary (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 biotechnology company developing a treatment to ablate the prostate gland and treat prostate cancer, 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 upon the 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 (IFRS), as issued by International Accounting Standards Board applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting. These interim condensed consolidated financial statements should be read in conjunction with PMI's annual financial statements for the year ended December 31, 2014 included in the filing statement dated May 22, 2015 filed on SEDAR, which were prepared in accordance with IFRS.

These interim condensed consolidated financial statements were authorized for issue on August 25, 2015.

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## **Notes to Interim Condensed Consolidated Financial Statements**

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

The accounting policies adopted are consistent with those of the previous financial year with the exception of the addition of the accounting policy below. Amendments to IFRS effective for the financial year ending December 31, 2015 did not have a material impact on the company.

### **Consolidation**

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

### **Critical accounting estimates and judgments**

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

- Fair value of derivatives

The fair value of the derivatives is determined using valuation techniques. The company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Additional information is disclosed in notes 5 and 6.

- Fair value of convertible notes

The fair value of the convertible notes is determined using valuation techniques. The company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Additional information is disclosed in note 4.

### **3 Qualifying Transaction**

The Transaction constitutes a reverse acquisition by PMI of Profound, a non-operating public enterprise. Profound, being an accounting acquiree, did not meet the definition of a business under IFRS 3 - Business Combinations and therefore the Transaction did not qualify as a business combination. PMI is deemed to have issued equity to the holders of the equity interests of Profound. Consequently, the Transaction is accounted for as a continuation of the financial statements of PMI, together with a deemed issuance on June 4, 2015 of shares and options by the resulting company for the net assets and the listing status of Profound accounted for in accordance with IFRS 2, Share Based Payments. The identifiable assets and liabilities of Profound are

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## Notes to Interim Condensed Consolidated Financial Statements

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recognized at fair value as at the acquisition date, with the excess of the fair value of net assets over the fair value of equity interest issued charged to the interim consolidated statement of loss and comprehensive loss as listing expense.

The identifiable assets and liabilities of Profound are recognized at fair value as at the acquisition date, with the excess of the fair value of net assets over the fair value of equity interest issued charged to the interim consolidated statement of loss as listing expense.

The comparative figures that are presented in the interim condensed consolidated financial statements are those of PMI. The consolidated statement of loss and comprehensive loss includes the full results of PMI for the period from January 1, 2015 to June 4, 2015.

	June 4, 2015 \$
Fair value of 2,200,009 Profound shares	3,300,000
Fair value of 146,667 Profound stock options	93,577
Fair value of 73,333 Profound compensation options	52,262
Less: Cash acquired	(1,157,535)
Less: Prepays acquired	(3,033)
Less: Other assets acquired	(227,037)
	<u>2,058,234</u>

The fair value component relating to the share options and compensation options was determined using the Black-Scholes option pricing model using the following assumptions:

	Share options	Compensation options
Volatility	103%	103%
Expected life of options	1.0 years	1.3 years
Risk-free interest rate	1.12%	1.12%
Dividend yield	nil	nil

#### 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 mature on January 27, 2016. The Notes are subordinate to the bank loan and accrue interest at a rate of 12% per annum. All or any part of the Notes may be 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



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that the notes 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 options that required separation. The company had elected an accounting policy choice to measure the Notes at fair value without separating the embedded derivatives. The Notes are re-measured at fair value at each period with any changes recognized in the statements of loss and comprehensive loss. On initial recognition the fair value of the Notes was estimated at \$3,594,565 due to the significant value associated with the conversion features, and the difference between the fair value and the amount of proceeds of \$2,094,565 has been recognized in the statements of loss and comprehensive loss for the six months ended June 30, 2015.

The Notes are considered a Level 3 financial instrument in the fair value hierarchy because there are significant unobservable inputs. The assumptions used in calculation of fair value are as follows:

	June 4, 2015
Credit spread	29%
Expected volatility	102%
Share price	\$1.50
Expected dividends	nil

During the three and six months ended June 30, 2015, the company recognized a loss/gain on change in fair value on the Notes of \$35,393 and \$334,680, respectively.

During the three and six months ended June 30, 2015, the company recognized \$32,432 and \$63,500 of interest expense on the Notes, respectively.

Pursuant to the terms of the Notes and in conjunction with the Transaction on June 4, 2015, the principal and accrued interest of the Notes were converted into 1,042,333 common shares at the price of \$1.50 per common share. The company recognized a gain on conversion of \$1,759,885 for the three and six month periods ended June 30, 2015, and \$1,563,500 was transferred to share capital.

## 5 Long-term debt

The Federal Economic Development Agency loan is non-secured, non-interest bearing, with financing of up to \$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 replaced the previous repayment terms of 60 monthly installments of \$14,450. The change in repayment terms was considered to be substantial and has therefore been accounted for as an extinguishment and the company recognized a gain of \$63,568 during the three and six months ended June 30, 2015. As at June 30, 2015, the principal balance outstanding on this loan is \$838,100 (December 31, 2014 - \$867,000).

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During the three and six months ended June 30, 2015, the company recognized \$16,101 and \$32,591 of interest and accretion expense on this loan, respectively (three and six months ended June 30, 2014 - \$14,313 and \$27,780, respectively).

The Health Technology Exchange loans are unsecured, bearing interest at 4.50% per annum, with annual repayments on March 31, 2016 for \$200,000, 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. At June 30, 2015 and December 31, 2014, the principal balance outstanding on this loan was \$1,500,000.

During the three and six months ended June 30 2015, the company recognized \$35,707 and \$70,555 of interest and accretion expense on these loans, respectively (three and six months ended June 30, 2014 - \$18,811 and \$34,869, respectively).

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

	June 30, 2015 \$	December 31, 2014 \$
Opening balance	2,079,472	1,190,741
Proceeds received	-	836,700
(Gain) loss on extinguishment of long-term debt	(63,568)	56,515
Repayments	(28,900)	-
Government grant received	-	(147,498)
Interest and accretion expense	103,146	143,014
	<u>2,090,150</u>	<u>2,079,472</u>
Less: Current portion	(86,700)	(130,050)
Non-current portion	<u>2,003,450</u>	<u>1,949,422</u>

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 upon as part of the closing of the qualifying transaction (note 3). Repayments commence on June 30, 2017 for a payment of \$1,427,258 followed by 7 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).

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The Knight Loan represents a financial liability that includes embedded derivatives that require separation. The prepayment and extension features represent embedded derivatives that are combined for measurement purposes and are recorded at fair value on initial recognition. The embedded derivatives are remeasured at fair value at each period with any changes recognized in the statements of loss and comprehensive loss. The host financial liability component is recorded as the residual amount net of transaction costs on initial recognition and is accreted to the principal amount over the contractual life using the effective interest rate method.

In addition, the company has recorded in share capital the fair value of the Knight shares issued concurrently with the Knight Loan and recorded a financial liability for the fair value of the royalty. The amount of \$2,303,034 in excess of proceeds received of \$4,000,000 has been recorded as a general and administrative expense and represents additional value provided to the company as a result of the Knight relationship.

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

	June 30, 2015 \$
Balance - Beginning of period	-
Cash proceeds on issuance of Knight Loan	4,000,000
Embedded derivatives asset	1,701
Fair value of Knight shares	(2,483,810)
Fair value of royalty	(359,016)
Transaction costs	(225,986)
General and administrative expense	2,303,034
Interest and accretion expense	55,427
	<hr/>
Balance - End of period	3,291,350

The embedded derivatives asset have been valued using an option pricing model and are considered a Level 3 financial instrument in the fair value hierarchy because there are significant unobservable inputs. The assumptions used in the option pricing model for each year are as follows:

	June 30, 2015	June 4, 2015
Credit spread	21%	19%
Expected volatility	102%	102%
Share price	\$1.50	\$1.50
Expected dividends	nil	nil

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The following is a reconciliation of the movement in the embedded derivatives asset:

	<b>June 30, 2015 \$</b>
Balance - Beginning of period	-
Fair value on initial recognition	1,764
Change in fair value of the embedded derivatives	(10)
	<hr/>
Balance - End of period	1,754

The royalty is initially recorded at fair value and subsequently carried at amortized cost using the effective interest rate method. The initial fair value of the royalty was determined using future revenue forecasts for the term of the loan and a discount rate of 18%. During the three and six months ended June 30 2015, the company recognized \$5,302 accretion expense on this royalty and the liability at June 30, 2015 is \$364,318.

## 6 Preferred shares

On January 22, 2014, the company closed a financing round in the form of 2,187,500 Series A2 preferred shares in the amount of \$1,750,000. 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 the price of \$1.50 per common share.

	<b>June 30, 2015 \$</b>	<b>December 31, 2014 \$</b>
Balance - Beginning of period	9,707,445	7,455,469
Cash proceeds on issuance of preferred shares	-	1,750,000
Fair value of embedded derivative on initial recognition	-	(3,737,442)
Amount transferred from derivatives upon exercise of the subscription option	-	2,330,330
Accretion expense	4,846,840	838,451
Accrued dividends	481,354	1,070,637
Conversion to share capital	(15,035,639)	-
	<hr/>	<hr/>
Balance - End of period	-	9,707,445

The embedded derivatives were valued using an option pricing model and were considered a Level 3 financial instrument in the fair value hierarchy because there are significant unobservable inputs. The assumptions used in the option pricing model for each period were as follows:

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	June 4, 2015	December 31, 2014
Credit spread	29%	21%
Expected volatility	102%	106%
Share price	\$1.50	\$1.50
Expected dividends	nil	nil

The following is a reconciliation of the movement in the embedded derivatives:

	June 30, 2015 \$	December 31, 2014 \$
Balance - Beginning of period	25,719,860	20,478,128
Change in fair value of the embedded derivatives	(2,086,416)	1,504,290
Fair value on initial recognition	-	3,737,442
Conversion to share capital	(23,633,444)	-
Balance - End of period	-	25,719,860

## 7 Share capital

Authorized

Unlimited common shares

Issued and outstanding (with no par value)

	June 30, 2015 \$	December 31, 2014 \$
39,442,337 (December 31, 2014 - 2,166,766) common shares	64,582,658	39,487

There are nil Series A1 preferred shares (December 31, 2014 - 2,500,000) and nil Series A2 preferred shares (December 31, 2014 - 10,812,500) issued and outstanding as at June 30, 2015. The previously issued preferred shares were converted into common shares of Profound (note 6).

On April 30, 2015, PMI completed a brokered private placement of subscription receipts for gross proceeds of \$24,008,828 (\$21,010,588 net of transaction costs), 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 of PMI upon the 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 (note 8).

On June 4, 2015, the company completed the Transaction resulting in the issuance of 2,200,009 common shares to the former Profound shareholders, the issuance of 16,005,885 common shares on exchange of the subscription receipts issued in the private placement, the issuance of 1,042,333 common shares upon

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conversion of the principal and accrued interest of the convertible notes at the price of \$1.50 per common share, and the issuance of 1,717,450 common shares to Knight representing 4% of the common shares of the company after giving effect to the Transaction.

### 8 Share-based payments

#### Share options

As a result of the Transaction (note 1), effective June 4, 2015, the company adopted a new share option plan (the Share Option Plan). All grants of share options to employees, officers and consultants after June 4, 2015 are made from the Share Option Plan. The maximum number of common shares reserved for issuance under this Plan is 4,733,079 common shares or such other number as may be approved by the holders of the voting shares of the company. As at June 30, 2015, 2,844,343 options are outstanding and there were 1,888,736 share options available for grant under the Share Option Plan. Each option granted allows the holder to purchase one common share at an exercise price not less than the lesser of the closing trading price of the common shares on the TSX Venture Exchange on the date a share option is granted and the volume-weighted average price of the common shares for the five trading shares immediately preceding the date the share option is granted. Share options granted under the Share Option Plan generally have a maximum term of 10 years and vest over a period of up to four years. In addition to the time-based vesting schedule, under the previous share option plan, the company has also granted share options subject to a modified vesting schedule based on the company achieving certain milestones relating to its technology.

In connection with the closing of the private placement on April 30, 2015, PMI granted 1,465,364 share options to directors and officers with an exercise price of \$1.50. In addition, as a result of the Transaction, each PMI share option was exchanged for one share option of the company. As a result, 2,697,676 share options are issued and outstanding to PMI option holders at June 30, 2015.

As a result of the Transaction (note 1), effective June 4, 2015, each former Profound share option holder received one share option to purchase common shares of the company for every 13.6363 share options they exchanged in the Transaction. In addition, 73,334 share options were cancelled as part of the Transaction. As a result, 146,667 share options were issued to former Profound share option holders.

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

	Number of options	Weighted average exercise price \$
Balance - January 1, 2014	1,237,312	0.24
Forfeited	(5,000)	0.24
Balance - June 30, 2014	1,232,312	0.24

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	Number of options	Weighted average exercise price \$
Balance - January 1, 2015	1,232,312	0.24
Granted	1,465,364	1.50
Profound share options (after consolidation)	146,667	1.36
Balance - June 30, 2015	2,844,343	0.95

The following table summarizes information about the share options outstanding as at June 30, 2015:

Exercise price \$	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
0.24	1,174,562	6.65	806,221
0.30	57,750	3.86	57,750
1.36	146,667	0.93	146,667
1.50	1,465,364	9.83	136,637
	2,844,343	7.93	1,147,275

The company estimated the fair value of the share options granted during the six-month period ended June 30, 2015 using the Black-Scholes option pricing model with the following weighted average assumptions. Due to the absence of company specific volatility rates, the company chose comparable companies in the medical device industry.

	\$	\$
Volatility	103%	126%
Expected life of stock options	5 years	5 years
Risk-free interest rate	1.12%	1.3%
Dividend yield	nil	nil

Compensation expense related to share options recorded in the statement of loss and comprehensive loss for the three and six months ended June 30, 2015 was \$240,573 and \$291,887, respectively (three and six months ended June 30, 2014 - \$44,014 and \$91,003, respectively).

### Compensation options

As a result of the Transaction (note 1), effective June 4, 2015, each former Profound compensation option holder received one compensation option to purchase common shares of Profound for every 13.6363

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compensation options they exchanged in the Transaction. As a result 73,333 compensation options were issued to Profound's IPO agent.

In connection with the private placement, PMI issued 576,235 compensation options to the agents to purchase common shares of PMI which upon completion of the Transaction were exchanged for compensation options to purchase common shares of Profound.

A summary of the compensation option changes during the period ended June 30, 2015 and the total number of compensation options outstanding is set forth below:

	Number of compensation options	Weighted average exercise price \$
Balance - January 1, 2015	-	-
Granted	576,235	1.50
Profound compensation options (after consolidation)	73,333	1.36
Balance - June 30, 2015	649,568	1.48

The following table summarizes information about the compensation options outstanding as at June 30, 2015:

Exercise price \$	Number of compensation options outstanding	Weighted average remaining contractual life (years)	Number of compensation options exercisable
1.36	73,333	1.22	73,333
1.50	576,235	1.93	576,235
	649,568	1.85	649,568

The company estimated the fair value of the compensation options issued as part of the private placement using the Black-Scholes option pricing model with the following weighted average assumptions. Due to the absence of company specific volatility rates, the company chose comparable companies in the medical device industry.

Volatility	103%
Expected life of compensation options	2 years
Risk-free interest rate	1.12%
Dividend yield	nil

The fair value of the compensation options issued as part of the private placement was \$465,072 and has been recorded in contributed surplus.



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### 9 Research and development expenses

	Three months ended June 30, 2015 \$	Three months ended June 30, 2014 \$	Six months ended June 30, 2015 \$	Six months ended June 30, 2014 \$
Materials	676,456	20,734	1,152,386	36,185
Salaries and benefits	503,512	400,797	1,025,037	746,450
Consulting fees	32,884	1,680	100,898	78,927
Travel	49,759	16,093	66,596	51,526
Rent	27,618	33,322	60,497	65,924
Other	26,314	31,421	51,811	36,048
Clinical trial costs	4,650	96,444	34,538	199,230
Contractors	-	17,600	1,749	34,160
Amortization of intangible assets	625	625	1,250	1,250
Investment tax credits	(216,437)	(137,874)	(554,180)	(275,748)
	<u>1,105,381</u>	<u>480,842</u>	<u>1,940,582</u>	<u>973,952</u>

The company's claim for scientific research and experimental development deductions and related expenses for income tax purposes is based on management's interpretation of the applicable legislation in the Income Tax Act (Canada).

### 10 General and administrative expenses

	Three months ended June 30, 2015 \$	Three months ended June 30, 2014 \$	Six months ended June 30, 2015 \$	Six months ended June 30, 2014 \$
Marketing expense (note 5)	2,303,034	-	2,303,034	-
Salaries and benefits	470,204	95,164	676,286	176,935
Professional and consulting fees	232,898	85,940	386,437	175,139
Share-based compensation	240,573	44,014	291,887	91,003
Travel	63,152	57,476	141,314	108,946
Office and other	46,447	29,048	108,774	56,582
Depreciation of property and equipment	27,816	18,407	50,682	35,015
Rent	9,004	8,331	17,224	16,481
	<u>3,393,128</u>	<u>338,380</u>	<u>3,975,638</u>	<u>660,101</u>

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### 11 Income taxes

For the periods ended June 30, 2015 and June 30, 2014, 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 and six months ended June 30, 2015 was 26.5% (three and six months ended June 30, 2014 - 26.5%).

In the event the holders of Series A1 and A2 preferred shares are paid, or deemed to have been paid, any dividends on such shares, the company would become liable for the payment of taxes under Part VI.1 of the Income Tax Act (Canada). Depending on the tax classification of the Series A1 and A2 preferred shares, taxes under Part VI.1 are generally calculated as either 50% or 25% of the amount of the dividend in excess of \$500,000. On the payment of these taxes, the company would become entitled to claim a deduction equal to three times the amount of Part VI.1 taxes actually paid. On conversion of the preferred shares (note 6), no dividends were paid or deemed paid and therefore the company reversed the taxes payable amount on the consolidated balance sheet and recognized a Part VI.1 tax recovery for the three and six months ended June 30, 2015, of \$798,991 and \$726,071, respectively (Part VI.1 tax expense for the three and six months ended June 30, 2014, was \$67,234 and \$132,594, respectively).

### 12 Loss per share

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

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net loss for the period	\$8,698,717	\$3,931,446	\$10,648,666	\$4,267,772
Basic and diluted weighted average number of shares outstanding	12,935,263	2,166,766	7,551,015	2,166,766
Basic and diluted loss per share	\$0.67	\$1.81	\$1.41	\$1.97

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 2,844,343 share options and 649,568 compensation options not included in the calculation of diluted loss per share for the period ended June 30, 2015, 1,147,275 and 649,568, respectively were exercisable.

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### 13 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 June 30, 2015 \$	Three months ended June 30, 2014 \$	Six months ended June 30, 2015 \$	Six months ended June 30, 2014 \$
Salaries and employee benefits	232,399	143,454	458,401	298,472
Directors' fees	11,311	5,537	22,662	11,115
Share-based compensation	215,239	7,234	253,369	28,792
	<u>458,949</u>	<u>156,225</u>	<u>734,432</u>	<u>338,379</u>

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

### 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.